103

EFFORTS TO INCREASE THE VOLUME OF AMERICAN SMALL BUSINESS EXPORTS

HEARING

BEFORE THE

SUBCOMMITTEE ON RURAL ENTERPRISES, EXPORTS, AND THE ENVIRONMENT

OF THE

COMMITTEE ON SMALL BUSINESS
HOUSE OF REPRESENTATIVES

ONE HUNDRED THIRD CONGRESS

FIRST SESSION

WASHINGTON, DC, JUNE 8, 1993

Printed for the use of the Committee on Small Business

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EFFORTS TO INCREASE THE VOLUME OF AMERICAN SMALL BUSINESS EXPORTS

TUESDAY, JUNE 8, 1993

House of Representatives,
Subcommittee on Rural Enterprises,
Exports, and the Environment,
Committee on Small Business,
Washington, DC.

The subcommittee met, pursuant to notice, at 10 a.m., in room 2359–A, Rayburn House Office Building, Hon. Bill Sarpalius (chairman of the subcommittee) presiding.

Chairman Sarpalius. The Small Business Subcommittee on Rural Enterprises, Exports, and the Environment will come to order.

This is the second hearing in a series of hearings that this subcommittee will be holding regarding exports. In the first hearing, we discovered that there are over 10 different agencies with more than 150 programs relating to trade.

The House has debated recently an economic growth package to try to help stimulate jobs and businesses in this country. The whole country is looking for a way to try to create jobs and put people back to work. I can think of no greater opportunity of accomplishing this than by being more aggressive in expanding our export capabilities.

For every $1 billion in exports, 20,000 jobs are created. They are high-paying jobs. They pay about 17 percent more than the average wage here in the United States. This country has been slipping behind, in my opinion, in our aggressiveness to compete with other countries.

To give you one example: Probably one of the fastest growing areas in the world is the Pacific Rim. Since 1980 their growth rate has grown 6 to 7 percent a year—double or triple the growth rate of more advanced nations. These countries control a greater share of the export market than Japan and Germany. For every $100 exported by their counterparts, the Pacific Rim exports $19 of merchandise.

In 1998, which is 5 years from now, this figure will increase to $23 for every $100 in exports. Taiwan, Korea, and others have moved into high technology, high value-added industries such as semiconductors and specialty chemicals.

Last year, Korea exported $4.4 billion worth of automotive goods. Singapore shipped almost $17 billion worth of advanced petroleum chemicals. These are areas that we should be taking advantage of here in the United States.

The purpose of today's hearing is to hear testimony on the success of State export programs, how States have been able to work with the Federal Government, and what the Federal Government can do to be more aggressive in trying to capture world markets.

I think that in this hearing, and hopefully in the hearings in the future, we will eventually come up with a program or a proposal that Congress and the President will look at, which, in our opinion, could provide tremendous opportunity for job growth in this country.

[Chairman Sarpalius' statement may be found in the appendix.]

Chairman SARPALIUS. Today, we will have four distinguished guests. Testifying first is the gentleman we had scheduled for the last hearing and, unfortunately, due to rescheduling, were not able to hear his testimony. Mr. Bill Nothdurft, please forgive me if I mispronounce your name.

Mr. NOTHDURFT. I am always looking for a better pronunciation.

Chairman SARPALIUS. Mr. Nothdurft has written a fascinating book that I would recommend to everyone called "Going Global: How Europe Helps Small Firms Export." I am looking forward to your testimony, not only on the subjects we are talking about today, but also in response to some of the testimony from the last hearing. We certainly look forward to hearing your perspective on how the European countries have become competitive in the global market.

Second, will be Ms. Karen de Bartolome. Ms. Bartolome is director of the Port Authority of New York and New Jersey.

Third, we have Ms. Deborah Hernandez, director of the Office of International Marketing for the Texas Department of Commerce.

Last, Mr. Anthony V. Gaetano, senior deputy commissioner of the New York State Department of Economic Development, will testify.

Bill, we are ready to listen to you.

TESTIMONY OF WILLIAM E. NOTHDURFT, AUTHOR, "GOING GLOBAL: HOW EUROPE HELPS SMALL FIRMS EXPORT"

Mr. NOTHDURFT. Thank you. I apologize for not being able to be here for the first hearing. When the date was changed, I was trying to bail out a State export assistance program in the Northwest that was about to go under because the legislature didn't realize that it was the only program in the State government that was actually laying golden eggs. We did save it.

I would submit to you that you have chosen the least sexy portion of trade to focus on. It will be very difficult, but not impossible, to move forward with what the United States calls export promotion, but what I prefer to call trade development issues. The reason is that most of the attention and most of the column inches in newspapers go to trade policy and the developments in negotiations on GATT and NAFTA.

This administration, as with other administrations in the last decade or so, is very involved in trade policy negotiations, and I am here to say, only partly tongue in cheek, that those trade policy negotiations are largely irrelevant to businesses in the United States.

My suggestion is that it is all very well and good to try to establish a level playing field through trade policy negotiations, but if you have no team to field, having a level field doesn't make any difference whatsoever. For the most part, we do not have a team to field. We do not have many companies that are in the business of trade in the first place. So, the number one challenge is to figure out how to increase both the number of exporters in the United States and the volume of exports.

Before we go to Europe, the subject of my new book, I would like to begin with three small numbers. The first number is 3.9 million. According to the Census Bureau, there are 3.9 million enterprises in the United States. These are firms that have payrolls.

Of that 3.9 million, here is the second number: Only 105,000 businesses in the United States do any exporting at all. That is only 2.7 percent of the total number of enterprises in the United States that have paid employees. Now the third number: Of that 105,000 enterprises, a mere 66 companies account for more than half of the value of all U.S. exports.

So, when I say that we have no team to field, what I am saying is that while we have 66, and indeed more than 66 clearly globally competitive companies in the United States, the vast majority of firms in the United States are not players. Even among those firms that have tried and have demonstrated by their own actions that they are interested in trading, the vast majority, more than 104,900, are really not doing very well in trading in markets outside the United States.

Why does this matter? At first these seem to be very depressing figures. But I like to look at things perversely, and it seems a very good piece of news, because were I in the position of either the Congress or the administration and charged with the responsibility of increasing exporting in the United States, my task is made enormously easy by the fact that we now know that there are nearly 105,000 firms that, by their own efforts, have demonstrated an interest in exporting but just are not doing it efficiently or effectively.

Their shipments average on the order of $7,200 to $10,000 each. They go to generally one, at most two markets outside of the United States. They are really marginal players. Les Stroh, editor and publisher of Exporter Magazine, one of the trade magazines in the export field, argues that at that level of export activity, firms are actually losing money by exporting because it costs more to execute a letter of credit than the margins they can possibly be earning from a $7,200 export.

So, we have, in that 105,000 firms, a large number of firms that would be relatively easy to move up the scale of export efficiency and export sophistication. Then, and only then, do we focus attention on the other 3.8 million who are left and who are not even players.

Let's go to Europe for a moment. We will go to one particular finding that intrigued me and my colleague, Robert Friedman, chairman of the Corporation for Enterprise Development with whom I did this research. One of the things that struck us, after several weeks of interviewing both public and private sector export assistance program managers, was that none of them was providing assistance to what Bob called the "export oblivious." That is mostly where our money goes.

Our money tends to go, to the extent that it is aimed at all, to small- and medium-sized businesses. We to try to encourage nonexporters to export as if a lack of enthusiasm were the principal barrier to exporting. I am here to tell you, as a small business person myself, that a lack of enthusiasm is not the barrier; the barriers are real. They are external as well as internal to the firms. But they are surmountable and our European competitors are doing a good job of surmounting them.

I would like to mention 10 principles we drew from evaluating the export assistance programs in Europe. But first, ask the rhetorical question, why go to Europe? The United States' policy is to help small- and medium-sized businesses export more efficiently.

If you wanted to know how to do a better job than we are currently doing, you might want to go to a place that had so small a domestic economy that businesses could only grow by trading; they could not grow by trading within their own boundaries. Then you might want to go to a place where the economy was composed primarily of small- and medium-sized business. Indeed, you might want to go to Europe because those are the characteristics of most European countries, with Germany as a notable exception and, to some extent, France.

No matter how you measure it, whether in terms of exports as a percentage of total GDP, or export assistance spending per $1,000 of GDP or per $1,000 of exports, the United States is at the bottom of OECD countries, and we are so far below the next competitor that it is astonishing.

What did we learn from Europe? We learned 10 basic things. The first came as a surprise to me. I was almost thoroughly convinced that there were serious external barriers that kept small- and medium-sized businesses from even thinking of exporting, much less succeeding. Barriers in finance and in the other nuts and bolts of trade transactions.

But when you talk to the administrators of public, private, and quasi-private exports assistance programs in Europe, they universally say that the principal barriers are inside the firm, not outside in markets. You think about it for a minute, it becomes clear that exporting is a personnel-intensive, capital-intensive, and more than anything else, a time-intensive enterprise.

If you listed all the assets of small- and medium-sized businesses, I would suggest that capital, personnel, and time would be at the bottom of the list, so it is not surprising that companies have a difficult time getting into trade development.

The Europeans established a variety of mechanisms for helping companies think through the process of exporting. That brings me to the second finding, that export development is part of company development; it is a strategy, not a single event. A single export does not an exporter make.

In most of the European countries I evaluated, the development of a coherent strategic plan, often with the assistance of public and private sector consultants, was a prerequisite to getting any assistance in export development. You could not participate in trade fairs. You could not participate in trade missions. You could not participate in assisted market research unless, and until, you demonstrated that you had thought through and had developed a strategic plan for the company as a whole, a plan of which exporting was only a part. You could not get through the gate.

The third and fourth findings are what I would describe as triage measures. The Europeans, who until recently were major subsidizers of trade promotion assistance, have arrived at the same point we have, which is that most of our pockets are empty. They also arrived at the conclusion that they have to parcel out the resources they have because they found they were wasting a lot of money they were spending on export assistance.

What did they do? They focused the vast majority of their money on firms that demonstrated they are export-ready. They determined that by an export audit process through which any company that wants to receive assistance must go in order to demonstrate the health and viability of the firm.

One of the things most dangerous for a small firm is getting involved in export development when it is not ready, in terms of either personnel, management sophistication, financial sophistication, or overall market scope. So, an export audit process is gone through once again as a gate through which companies must pass before they receive any assistance.

Those firms that cannot demonstrate that they are export-ready but can demonstrate that they are export willing, receive training. But they receive training that is very different from the kind of training available here in the United States from either Federal, State, or private sector programs by and large.

The Europeans provide training that is hands-on assistance, within the company, to help them develop an export plan, not general purpose motivational seminars. What they discovered was that the seminar process was not yielding export-ready firms. We can talk about some models later. The book describes several of them.

So, we go through the triage process winnowing out several firms that think they are ready, but are not, and are not ready to make the investment they need to make in order to succeed.

That takes us to the next finding, which is that there are indeed external barriers for small- and medium-sized firms to penetrate overseas markets. There are barriers in market information; the acquisition of market information. There are barriers in what I call market exploration. That is, going out to a particular target market and exploring the opportunities there. Finally, there are barriers, in some cases significant barriers, to actually penetrating a given market.

To make a long story short, the Europeans have created an imaginative set of programs to help small- and medium-sized companies overcome each of those barriers.

Next, they focused attention on who should deliver the assistance to small- and medium-sized firms. They concluded through experience that assistance is best delivered by private sector, or quasi-private entities with public charters, for any of a number of reasons, not the least of which is that companies tend to not want to participate in Government programs and tend not to trust Government programs. But they do trust programs that are being delivered by, say, a chamber of commerce, or a trade association, or some joint subnational or regional organization that includes both, even if the program that is delivered is actually a State program.

They want to deal with their own. They trust them better. Those quasi-private and private sector programs also tend to be closer to the ground and understand their clients better than agency people at the national level.

The second thing they decided about the delivery of services was that the services that worked best, that had the best payoff—and payoff is as important to the Europeans as it is to us right now—were those that were targeted geographically and sectorially, particularly to clusters of industries within industrial sectors.

Next, the more customized, less general that assistance is, the more likely it was to bring about a successful export. So, what you end up having is programs that begin at the very beginning with a company, help them think through the development of a strategic plan, help them develop a specific export plan for a specific product and specific market, help them find partners in that market which can be anything from a representative to a joint venture partner and negotiate the relationship between those two parties, and actually take them to completing the deal.

Unless, and until, you are able to provide that customized assistance, you are going to spend a great deal of money and not receive as much of a payoff from those investments as you would if you customized those forms of assistance.

Two other lessons I want to point to: One is that exporting itself is only worthwhile if it is profitable. If it is profitable, export assistance ought to be worth paying for.

We are one of the few countries among the major industrialized nations that continue to give away most of the export assistance that is made available. It may be a perfect example of "you get what you pay for." Most export assistance in the public and private sector in most European countries, particularly the Northern European countries, including both conservative and social democratic countries, involves, a financial commitment, generally 50 percent of the project cost, by the company assisted. Firms are expected to pay fees for the services they receive, either up-front fees or commissions or royalties on subsequent sales from the deals that were assisted by the programs. Thus, there is a return on the investment that the public sector makes in helping small- or medium-sized firms be successful in markets.

This is a very significant point and one which I think, if we paid no attention to anything else, would substantially reorient both Federal and State programs here in the United States for export assistance.

Finally, somewhat perversely, the Europeans have discovered exporting is not what matters. What matters is trade development; increasing the rate and volume of exporting and importing. The more that churning, if you will, occurs, the more businesses grow, the more income is created, and more tax revenue is generated by those businesses.

So, when we focus strictly on export promotion without looking at the relationships between companies which may have, if you will, bilateral relationships, the more we lose the opportunity for generating more and more income and jobs associated with the full trade development cycle.

The point that I want to make, and the principal lesson from the Europeans I think, is that trade development is not magic, it cannot be conjured or exhorted, and it cannot be developed by motivational seminars. It happens one deal at a time.

To the extent that players in the export assistance field help companies on a deal-by-deal basis, we will have more success as a nation in exporting.

I have spent quite a number of hours over the last 6 weeks advising both the Trade Policy Coordinating Subcommittee on export promotion and other issues, and also the members of the team in the Vice President's National Performance Review who are dealing with Commerce and SBA-related issues.

I can tell you that very few of the individuals who are involved in that process are stepping back far enough from the programs that currently exist to ask the fundamental strategic questions which include: What business are we in? What is it that we are trying to accomplish?

Let me suggest one fundamental question that is by and large not being addressed: The question is, is it our objective to increase the volume of exports or is it our objective to increase the number of exporters? Most of the people who I have talked to at the State level and the national level answer "yes," which is to say, both.

But those are two fundamentally different strategies which require fundamentally different tactics. You can not pursue both of those programs simultaneously and expect to succeed? We have not begun to address the most basic fundamental questions at the State or national level.

Until we do, we will continue to have a far less developed infrastructure for support of the companies that are trying to develop export, and we will continue to be the trade underachiever among the developed nations.

Thank you.

[Mr. Nothdurft's statement may be found in the appendix.]

Chairman SARPALIUS. We will hold our questions until after we have heard from everybody on the panel.

I want to go on to our next witness, Ms. Karen de Bartolome.

TESTIMONY OF KAREN S. DE BARTOLOME, DIRECTOR, OFFICE OF INTERNATIONAL BUSINESS, PORT AUTHORITY OF NEW YORK AND NEW JERSEY

Ms. DE BARTOLOME. Good afternoon. I am Karen de Bartolome, director of the Office of International Business. I am pleased to present testimony this morning on the Port Authority of New York and New Jersey's programs to assist small- and medium-sized businesses to sell overseas.

I am a big disciple of Bill Nothdurft. We are trying to carry out the 10 lessons Bill wrote about in his book. I learned a new term. We are kind of a team builder. You said the United States doesn't have a team to field in this game, and we are trying to build that team for New York and New Jersey.

The most basic role the Port Authority plays in our region is first and foremost the operation of transportation and economic development facilities that directly support international commerce. We operate the region's three airports, the seaports, a heliport, and the World Trade Center. In addition, we have helped develop the Teleport on Staten Island and other economic development facilities and projects.

A second role that the Port Authority plays in support of these facilities is the provision of international business services within the region. Through my office, we provide export trading services and international business training for small- and medium-sized firms in the New York and New Jersey region.

The Port Authority's World Trade Institute has provided training to tens of thousands of small- and medium-sized company managers since the early 1970's. Programs are offered at our facility in the World Trade Center in New York and in cities throughout the United States.

The institute helps companies train their employees in a multitude of areas, including international tax, finance, logistics, purchasing, marketing, human resource management, and international business strategy.

Our Language Center within the institute also helps individuals and companies compete effectively overseas. All of our programs are taught by business people. All are very, very practical and designed to help exporting companies succeed in the global marketplace.

The XPORT Trading Co. is our other main program in this area. This has been created to help small- and medium-sized businesses enter and succeed in markets abroad. XPORT works directly, hand in hand, with individual companies or with industry groups that wish to expand into the overseas market.

In our work with individual companies, we provide hands on, direct assistance through all phases of international business-learning and business-building, including market analysis, identifying distributors, redesigning products to meet new specifications, attending trade shows, and negotiating price and shipping terms, arranging advertising, providing access to export financing, and more.

XPORT is organized into five product groups chosen to reflect the existing manufacturing strengths and growth opportunities for companies in our region. These five groups are: Consumer products; environmental control equipment; specialty chemicals; biomedical products; and lumber and wood products.

XPORT requires that client companies enter into individual business relationships with us in the form of a 3-year contract which stipulates that we receive a small commission on any sales that result from our efforts. At the end of the training period, companies graduate from the XPORT Trading Co. and continue to run export operations on their own.

Building on the expertise gained through this one-on-one program, we have implemented a new program designed to assist groups of firms in exporting their products.

Our first activity in this area focused on an innovative collaborative effort called Furniture New York. FNY is a group of 30 contemporary furniture and furnishings designers and manufacturers who support each other through joint international marketing and the formation of a supplier network.

I should add that a number of manufacturers in this network were former defense contractors who began to produce furniture instead of guns, bombs, and other defense-related products. We have helped them with business planning, practical export information, and financial assistance, and assisted them in promoting their products in the EC and Japan through participation in major trade shows in these markets.

In a similar fashion, we have worked with the New York Furriers group. A recently completed sales trip to Japan resulted in $2 million in sales of New York City-produced furs to Japanese consumers. We have assisted several other industry groups in a more consultative capacity to develop international marketing strategies. These groups include the New York Building Congress, the New York Software Industry Association, the Brooklyn Cosmetics Focus Group, and the New Jersey Chapter of the American Electronics Association.

In 1992, XPORT's total sales for all client companies and wholesale clients were $20 million. Over the past 10 years, since XPORT was founded, we estimate that we have worked with some 150 small companies, achieved $200 million in export sales, and established a network of more than 300 buyers and distributors around the world.

Through our experience, we have seen both the vast opportunities in the export arena and the hurdles that companies must leap in order to capture those opportunities. In order to help companies over these hurdles, we believe that companies require a long-term package of export services provided on an ongoing basis. We feel that the Federal Government, in partnership with XPORT, State, and regional export service providers, is in a strong position to provide such a package.

I have included in my testimony some specific ideas in a variety of areas, but in closing, I would like to leave you with just three ideas that we think will be key to improving the targeting and effectiveness of all export assistance.

First, it is imperative that we develop more effective partnerships among the providers of export services so that continuous, user-friendly, long-term assistance is available to new exporters. One specific new example of how this might happen is through the use of world trade centers. There are 50 world trade centers throughout the country. They have an association called the World Trade Centers Association. I spoke with the World Trade Centers Association officials yesterday, and they asked me to transmit to you from them that they are anxiously looking forward to working with the Federal Government as local suppliers of some Federal export promotion programs. These world trade centers have 30,000 members nationwide, most of whom are small- and medium-sized companies, and we feel they are perfectly situated to play a multiplier role.

Second, it is very important that we leverage public resources by providing assistance to industry groups as well as to individual companies.

My colleague from New York State, I am sure, will be describing some of New York State's successful efforts with respect to industry groups.

Third, we have to solve the export finance problem. Unfortunately, I don't have a specific solution to propose this morning, but I do have a key finding about the nature of the problem. First, the cumbersome nature of Eximbank Programs are unappealing and unsuitable for small businesses. Second, U.S. banks are neither skilled nor interested in international transactions, particularly small ones, and they are doing very few of these transactions.

Finally, there are many nonbanks which are making export deals, but at very hefty rates. Their high costs render many deals noncompetitive. Perhaps nontraditional sources will be more affordable.

The Port Authority is deeply committed to helping our regional firms become global competitors. We are anxious to cooperate with our partners in the public and private sector in developing export services which will effectively support America's small businesses as they enter the international arena.

Thank you for inviting the Port Authority to speak to the committee on this important subject. I will be happy to answer questions later.

[Ms. Bartolome's statement may be found in the appendix.]

Chairman SARPALIUS. Thank you.

Deborah.

TESTIMONY OF DEBORAH HERNANDEZ, DIRECTOR, INTERNATIONAL MARKETING, TEXAS DEPARTMENT OF COMMERCE

Ms. HERNANDEZ. Mr. Chairman, Members of Congress, thank you for inviting me here this morning. My name is Deborah Hernandez. I am director of International Marketing for the Texas Department of Commerce. It is my job to assist small- and medium-sized exporters of manufactured goods and services to enter into new markets.

Specifically, we target small- and mid-sized businesses that are new to export or new to market. New to export means they have never exported before, which requires a much longer development process as Mr. Nothdurft and Ms. de Bartolome stated. Others are companies that are perhaps exporting by accident or otherwise active in a market and are now ready to get a little bit serious about targeting new markets.

I want to tick through and address each of the five questions that were posed to me in my letter of invitation. I will go as quickly as possible.

First of all, in terms of what the State of Texas is doing to help small- or mid-sized businesses penetrate foreign markets. We have made every single mistake that Mr. Nothdurft has described. We are working very hard to try to remedy that.

For almost 3 years, I have held the position as director of International Marketing. It has been a real battle to try to get people to understand the difference between increasing the number of companies exporting and increasing the volume of exports. They are very different goals.

Right now we are still in transition. Hopefully, by September 1, which is the beginning of our fiscal year, we will be able to have implemented a new, staged program of export assistance in cooperation with our district offices of the U.S. Department of Commerce, specifically the U.S. and Foreign Commercial Service, and the State's Small Business Development Center network—there are 56 SBDC's in Texas.

This staged program underscores the importance of having somebody be a cheerleader to get small companies interested in exporting, but then also having someone able to back that up with detailed and ongoing assistance needed by small companies. This sort of technical assistance is what most businesses say they don't have access to or they don't know where to go to for help.

We tried to make an inventory of who is doing what in Texas 3 years ago. We believe that technical and sustained assistance to small companies needs to take place at the local level where somebody is present onsite who knows that company's interests. If a company can go to a private source, then Government should not be providing assistance to those firms.

Small companies that can afford a fee of $500 or $1,000, then those are the kinds of businesses we need to help. If you can shell out $5,000 or $7,000 for market research, you probably don't need the type of assistance a State program will be able to provide.

Based on our inventory, we have tried to rationalize export assistance delivers in Texas. During our inventory, we looked at the small business development centers in Texas and found that almost all of them do what they call a monthly export briefing which is nothing more than a brown bag lunch or a breakfast where people talk about the opportunities available in the export arena. This is very important, because most businesses that read about something in the newspaper say, "Maybe this is for me, and I want to look into this," and will go to that briefing.

The problem is, at the end of that briefing, there is nobody there to say, "Yes you can," and to hold your hand through the process.

We found a second tier of assistance already available and organized with the help of the U.S. Department of Commerce, which is an export workshop series. This series is normally three or four Thursday mornings in a row and is currently offered, unfortunately, only in Dallas, San Antonio, and Houston, our major metropolitan areas.

This is a very good overview of transportation relating to exporting, financing as related to exporting, and legal issues relating to exporting, very distinct topics. The difficulty with this again is that you have small businesses sitting in a room being talked at. There is not a whole lot of interaction.

After looking at each of these programs, we agreed they were fine and successful for the SBDC's. In most cases, the sponsoring organizations are making money and generate interest in exporting. We get a flurry of telephone calls following these conferences consistently. But we also agreed that we need a further screening mechanism for businesses so that our counseling hours are maximized.

We identified a third tier of the training program which will go into effect on September 1. It is a strategic planning process which is very action oriented. It will be a three-part series. It will be based on a workbook that requires a company to fill out a basic business plan prior to enrollment in the seminar.

Again, we are all familiar with basic business plans, but most businesses, in fact, do not have them. So, we need basic company information, basic profile information, an inventory of assets and weaknesses for a company, all prior to them being allowed to enter into this three-part strategic planning program.

The program will talk a company through the development of an international marketing plan, budgeting for international activities, where they are going to go to get financing, how they are going to do it, et cetera. We plan to have at least three counselors onsite throughout the entire process. Class size will be limited to probably 15 participants, although we are still negotiating that with the local groups that are going to work with us.

At the end of this 3-week process, in addition to counseling sessions held in between the formal seminars, the company will have a strategic plan for international development, will have met with an international banker, and know they can get money and will have a timetable so they can judge what type of progress it is that they are making.

If you get a business through all of that, it is ready to export. Then when a company has issues come up throughout the export process, you have a counselor who can help them along the way. You spend counseling hours helping a company stuck in Customs, or trying to figure how to negotiate an agent or distributor contract.

That is the kind of technical assistance you want to be providing to maximize counseling hours, not sitting there saying, like we do now, let's refer you to this resource or let's refer you to that resource or providing very general information.

It has taken more than a year to get everybody on the bandwagon to do this. It will be exceedingly more difficult to do that at the Federal level.

In sum, this in how we provide technical assistance. We also provide trade leads through an electronic bulletin board system which we call Texas Marketplace. We do make use of the U.S. and Foreign Commercial Service's Tops leads on that system as well. Also, we get trade leads that come in from our State of Texas offices which are located in Tokyo, Taipei, Mexico City, and Frankfurt. We also receive calls and letters, as do most States, from people writing in asking for bobby pins, sweet onions, and everything else under the sun that they want to distribute. That information is accessible with a one-time, $10 fee to anybody who has a computer and modem.

We are going to institute a cost-recovery strategy for this bulletin board this fall as well. The program is only about a year old, so we wanted to make it as cheap as possible to get the user base initially. We also conduct marketing events right now. These consist of trade missions, catalogue shows, and full-blown trade fairs.

We are going to a system of more small, focused trade missions with five to seven companies, and we are going to try to get out of, to the greatest degree possible, the trade show business.

As Mr. Nothdurft said, trade shows are useful and have a purpose, but for most small companies, they need quite a bit more hand holding than what you will get, even from a service like the Gold Key Service the U.S. Department of Commerce provides, or from some type of a U.S. pavilion at a trade fair. They just need more help than that.

We also have a finance program, the Texas Exporters Loan Guarantee Fund which is simply that, a loan guarantee fund. The minimums and maximums are indicated in my testimony.

I would like to take the opportunity to underscore what Mr. Nothdurft said, which is that financing is an issue that permeates all small business. The issue is not just transaction financing, although there is certainly a dire need for that. As Ms. de Bartolome said, it is exceedingly difficult to get banks interested in any international deals, least of all financing small business export transactions.

We have had businesses come to our office with $25,000 deals, and we have not been able to get banks to pay any attention to that. So, what our companies are doing is taking out working capital loans or other financing mechanisms using domestic receivables in order to finance their international activities because they cannot get money through a bank for international transactions.

We have lots of success with the Eximbank City/State initiative whereby we package Eximbank loans. The reason why that is successful is because the Eximbank process is very cumbersome for businesses to go through on their own, and it is very discouraging to them.

We are a big believer in the City/State program. We have found Eximbank to be responsive to our needs through that program, and we would like to see that expanded if there is any way possible.

In terms of what the Federal Government can do, I have probably four pages of my testimony devoted to this. This volume is not to be taken as a slam against the Federal Government. I think they do some things very well. But in a nutshell, we need more timely and better market information, which is something the Federal Government can do very well, I think, if they put their minds to it, rather than having each State gathering market intelligence, which is grossly inefficient.

I think the continued development of cost-effective tools to assist exporters, and I will detail some of those in a moment, is also another need, and better coordination of Federal programs with other Federal program and Federal programs with State and local delivery sources is needed.

Finally, better export data is a critical, critical need.

In terms of the more timely and better market information, I am a big proponent of the National Trade Data Bank. I am very glad that it came about. We use it on a daily basis. The country marketing plans, the industry sector analysis and subsector analysis are very useful for our companies.

The problem is there are not very many of them on the system because the United States and Foreign Commercial Service is greatly limited due to lack of adequate staffing and budgeting in foreign embassies. There is only so much you can do with a limited number of resources.

I think it would be interesting for the committee to take a look at how our personnel in foreign embassies stack up to those of our major trading partners, particularly in the commercial intelligence gathering end of the spectrum. I think you would find they probably don't stack up very well. That is an area that needs to be beefed up.

The second area in which information is needed is trade leads. The Tops leads the U.S. Department of Commerce makes available are good. They are getting better. We had some problems with them a couple of years ago, and the U.S. and Foreign Commerce Service has been as responsive as I think they can be with the Tops leads.

But we are still finding, on occasion, that the leads that come from the Tops system have been available to some private sources sometimes for up to a week or up to a month. When we get them from the U.S. and Foreign Commercial Service, sometimes they are useless. Again, let me underscore, that process has been improved greatly over the last couple of years, but there are still some glitches.

We have heard time and again there needs to be a better way to promote our products to people who are ready with cash in hand. We have to find better, more instantaneous ways to respond to those needs.

The continued development of cost-effective tools for exporters is critical. The fee-based market research programs, international trade partner searches, background checks, and things of this nature that the U.S. and Foreign Commerce Service has, have greatly improved over the past 2 or 3 years.

I think for small businesses, it is some of the best initial market research that you can buy for the money, and I think it needs to be publicized more. But of course, then again, you will run up against staffing problems. I think the Federal Government has a big role to play in putting tools out there that businesses can take advantage of on a cost-recovery basis.

I have several suggestions in this regard. The first involves some type of a program designed to make international procurement opportunities more widely available to small businesses. By this, I mean World Bank Programs, AID Programs, Inter-American Development Bank Programs, and on and on, all of those multilateral development bank and international development agency programs to which the U.S. Government contributes money.

The procurement processes and project cycles, I would say, are very prejudiced against small businesses. It is exceedingly difficult for small companies to enter into that project bidding cycle. Each entity has a different approval process and registration process, and, unless you have prior international experience, you pretty well cannot get on the bid list.

The U.S. Trade and Development Agency has made great strides, I think, in the area of making feasibility studies known to small businesses. This is one area where small companies can enter into this international procurement cycle fairly easily.

I am very pleased that the Congress has rewarded the U.S. Trade and Development Agency with additional budget this year, because I do think they are doing a good job. The U.S. Department of Commerce has also recently established liaisons with each of the major development banks. This is helping, but it is a small staff. Most of it is Washington based. If businesses are not knocking on people's doors, they are not going to get the information. Since most businesses are not in DC, I think we have to find a better way to distribute the information.

Second, marketing promotion. Other people have mentioned this. The U.S. Department of Agriculture has a market promotion program that has more money than just about all the U.S. and Foreign Commercial Service put together. I don't think we need a program like this which has to be a giveaway as it currently is.

Right now, there simply are not any dollars available to help small companies market their products. There is, however, a basis for a program like this already in existence through the Export Revolving Line of Credit, or ERLC Program, that is currently under SBA.

Unfortunately, in my opinion, this program is totally ineffectively administered and marketed. Most people don't know about it or can't take advantage of it. I would like to see this completely revamped and perhaps moved out of the SBA.

I am a strong, strong, advocate of the Small Business Development Center Program; less of an advocate internationally for SBA itself. If we can institute something like a reconstitution of the ERLC Program similar to the Eximbank's City/State Program where there is some delegated authority for States or other local multipliers, I think that would be very favorably received and would be far more effective way to administer and market the program.

Third, we are a Government where we take a lot of highly focused trade missions to open doors. This is a good thing. The problem is these programs tend to be prejudiced toward large companies. The fees involved are very high. Most of the time the notice we get at the State level is very short, a week or 10 days to the deadline. Sometimes there are even annual sales or annual production volume criteria that effectively shut out small businesses.

There are some missions which need to be focused toward large companies, but we also need to make a better effort to include small business trade missions into our Federal promotion programs because opening doors is one of the best things the Federal Government can do on behalf of small companies.

Fourth, we need to do a better job encouraging foreign buyers to visit U.S. Trade shows. Many other foreign governments actually subsidize this activity. As an example, which I include in my testimony, I was at a trade show in Canada last year. I was very surprised to run into several San Antonio, Texas companies up there, not for purposes of selling, but for purposes of buying.

They had their entire trip paid for by a combination of funds from the Federal Canadian Government and the provincial government in the province in which the trade show was held.

We simply have to find a way to encourage more foreign buyers to come here. The U.S. Department of Commerce Foreign Buyers Program is great. It markets events, but there is no money for this. We have to almost fight fire with fire on this, in my opinion, and get more people into the United States to buy products.

Fifth, we have to recognize, as Mr. Nothdurft said, that trade is a two-way street and so is investment. Normally, when companies are importing products into the United States or finding markets in the United States, they are going to ultimately invest here, just as most U.S. exporters are ultimately going to need an investment in the foreign market in order to remain competitive. Let's please not ignore that any longer.

Sixth, domestic trade. A lot of small companies can make great inroads internationally by introducing themselves to trading companies with a presence in the U.S. foreign-based trading companies with a presence in the United States and U.S. subsidiaries of foreign firms. There is really not a whole lot done now anywhere to help companies meet up with those two sources.

In terms of better coordination, the Trade Policy Coordinating Committee is a start, but from what I have seen so far, they have developed a hotline, and they have talked a lot, but no one has streamlined any programs. This, after all, is the harder part of coordination. I would encourage the TPCC to take the next step and actually coordinate some programs or consolidate programs.

I have two suggestions for how that could be done. If the U.S. Department of Commerce is supposed to be the lead agency on export promotion, then make them the lead agency. All the other agencies that want to be involved in international trade, such as the U.S. Department of Energy, such as AID, such as the Department of Treasury, and on and on, make them loan staff to the U.S. Department of Commerce rather than create a new administration for international programs within their agency.

You are wasting a lot of dollars on administration by doing that. What you set up is a system whereby you have different agencies with competing interests having to coordinate rather than an overall strategy for international development.

The second way you can do it is to simply divvy things up along functional lines. Put technical assistance in a small business development center network. All outreach takes place through that—not SBA—the Small Business Development Center Network. I want to make a clear difference between those two.

All foreign market intelligence gathering and the development of programs for marketing assistance—put that under the U.S. Department of Commerce, and put all finance under Eximbank with assistance from SBA. I think SBA has a big role to play for small business finance, and, in the international arena, they should loan substantial staff to Eximbank to make their programs more sensitive to small business. So, you can slice it in a number of ways, but you have to do something to streamline those programs.

In terms of coordination, I cannot tell you how many agencies have shown up in Texas to do an international seminar, and I have never known about it. They think to themselves, "There is a lot of energy industry in Houston so we are going to call somebody in Houston to go do the seminar." I get phone calls from people asking if I know anything about this. My answer is no. The Federal agencies lose out on the benefit of having the whole State's participation, and State assistance with followup, which we would gladly provide by operating in this manner.

Again, I think this makes the case for the need for greater coordination at the Federal level for Federal and State programs.

Export data—finally, we depend on the Federal Government for information on export data because the Feds are the group that collects the shippers' export declarations and pulls down the data. The problem is we have origin of movement data at this time which is grossly incorrect.

Origin of movement simply measures the starting point of the export shipment, so if it is warehoused in Dallas, it shows up as an origin of movement Dallas shipment, when, in fact, it may have been manufactured in Ohio. There are all sorts of algorithms applied to this data to try to make it more accurate, but the bottom line is when States try to target their export initiatives using this data, we are taking stabs in the dark.

With that, I will close. The rest of the questions are addressed in my testimony. I would be happy to provide any answers to questions you might have at the end.

Thank you for your attention.

[Ms. Hernandez' statement may be found in the appendix.]

Chairman SARPALIUS. Thank you, Deborah.

Mr. Gaetano.

TESTIMONY OF ANTHONY V. GAETANO, SENIOR DEPUTY COMMISSIONER, NEW YORK STATE DEPARTMENT OF ECONOMIC DEVELOPMENT

Mr. GAETANO. My name is Tony Gaetano, and I am the coordinator of the International Trade and Investment and Tourism Programs for New York State. I want to thank you for giving us this opportunity. This is a terrific opportunity for us, not only to sit at the same table with people who help shape our program, but also to hear the terrific ideas from Texas.

Let me tell you a few things about our organization and the services we provide and share some thoughts with you about what we think the future direction of Federal policy should be. We don't have a large operation. Our department of economic development in New York State is only about 400 people.

We have three other economic development agencies that do manufacturing investment, community development, and science and technology investment, but the technical assistance operation for New York State and the international trade programs and our tourism programs are all in an agency that is only 400 people with an annual budget of about $34 million. We do have 14 field offices around the State, and we have 7 offices in Canada and overseas.

There was a time when in Canada and Europe alone New York State was and we were the first people out there in the 1960's. But that is not true for New York anymore. We have tremendous competition, as you can hear, from other States. Through our offices in New York and abroad, our international programs are very, very close to our clients. We handle about 18,000 inquiries a year, and we deal substantively with more then 1,000 firms.

Governor Cuomo decided, 3 years ago, that we should be doing a lot more in international trade. He created a trade program called Global New York. We have rewritten the entire roster of international trade and investment programs that we had, creating new programs that build long-term exporting capacity in small businesses, and in the trade organizations, chambers of commerce, and other business organizations that are around the State that rely on us for resources.

This redefining of our role and programs was not just a question of what was effective, or how to best be effective, but also a matter of resources. I mentioned we are only 400 people.

What has been going on in State government around the country? We have lost a quarter of our people. Our ability to spend economic development program money with companies has been reduced by between 30 and 40 percent.

While that has been going on, we have been emphasizing the international programs. We have been able to add some dollars to those programs, but the bottom line is that every dollar has to count. Any people we devote to these programs have to be productive and the results have to be measurable. We are evaluated every 2 years. All of our financial assistance programs are evaluated by an outside evaluator who reports to the governor and the legislator.

Over the last 3 years since we created the Global New York Program, according to a study by Peat Marwick and based on survey data we do annually ourselves, our export programs have helped 4,500 companies make more than $150 million in export sales, incremental sales. There is a longer lead time in exporting, and we think those companies are just going to grow themselves and their sales are going to grow. Our goal is, roughly, we want to reach another 5,000 firms in New York and increase their exports by $500 million.

Now, the question that has been raised here in terms of volume of exports or number of exporters, it is interesting to think about how you would answer that. We have concentrated on firms that we think can grow the volume of their exports rather than trying to increase tremendously the number of firms that are going to enter exporting.

We follow some very simple rules with our programs. Where it is possible, our programs have to pay for themselves. Companies have to demonstrate to us that they are in it for the long haul. They have to pay for extraordinary services. We work with groups of companies and industry associations as much as we can rather than individual companies, and we do not subsidize trade show participation.

We have a trade show program, but it pays for itself. We make two kinds of grants to regional or local organizations. We make very small grants under $5,000 to help them build programs and networks of companies, and we make larger grants to organizations that can deliver more sophisticated services at the regional or local level, up to $50,000.

We did a grant, for example, to a consortium of local development corporations in the Buffalo, New York area. The first year they helped 105 small businesses make $26 million in sales. Over the past 3 years, we have tried to nurture regional organizations because they are the closest link to the companies. They create the networks of companies.

One important thing that has happened to New York is that around the State private trade at one time, we had three or four organizations, now we have about one dozen. For the first time, they have decided to form a statewide association.

In brief, we have a select number of services. We don't do a lot of things. They are targeted to certain industries, although we don't cut people out entirely. They are integrated with other agencies such as the Port Authority, and our science and technology foundation which works with a selected number of universities and technologies.

We offer matching grants to companies and industry associations for developing and executing export strategies for specific markets and for assessing export capacity. In 1993 and 1994, this program will work with about 300 individual firms and industries such as optics, electronics, building contracting, garments, furs, apples, processed foods, and defense contractors.

We have, we think, one of the best diversification programs in the country. We have helped a lot of small companies that were occasional exporters—or who were exporters because a buyer came in the door—to develop export strategies and to take their export sales up to 25 or 30 percent of their annual sales.

We use direct mail to solicit our own foreign trade leads. We do 15,000 to 20,000 trade leads a year. For a fee, we offer overnight fax and overnight letter to subscribers. We do a dozen trade shows a year. We work with the Port Authority of New York and New Jersey and work with local groups. For a fee—which we have increased steadily over the last couple of years, partly as a result of recommendations we had from Bill Nothdurft who looked at our programs and gave us a lot of good advice—for a fee, we locate and qualify, and this is a time-intensive service to sales agents and distributors in Canada, Asia, and European markets.

We share a border with Quebec and Ontario, and 20 percent of our exports are with Canada. It is a tremendous tourism business for us as well. I am not surprised that my colleague from Texas found San Antonio bars up there or finds Texas exporters up there, because one of the interesting things for us is that was our territory. For a long time we were alone in Canada, and we are not alone there anymore. A number of States have opened offices there.

Our foreign offices were, up until about 4 years ago, entirely devoted to attracting investment to New York State. Now they spend 50 percent of their time on trade. Given our experience with companies over the last 3 or 4 years, and our experience really with not working very much at all with the Federal Government, the SBA and DOC reps in our area are known to us.

The DOC reps in Upstate New York is collocated with us. We know them and work closely with them, but there has not been much of a Federal impact on trade promotion programs over the last 2 years. We think that it is absolutely critical that the Federal Government develop a comprehensive strategy and that it integrate its trade programs, and much of what my colleague from Texas had to say, I would endorse as strongly as possible to you.

We make some other points. We think your strongest partner in all of this is the States and, over the last few years as the Federal

Government retreated from being an active player, that the States have become laboratories of change, developing new programs. We have built a very strong relationship with industries and local organizations, and we think you ought to take advantage of that.

We have trade agreements with eight countries, the Canadian provinces, and with several foreign chambers. They are primarily based on building two-way trade relationships between New York and other countries. We think you should take advantage of that.

We don't think you should, as you build the Federal Government's role—and you are going to do that over the next few years—duplicate the services or networks that exist now, not just for New York, but around the country. You should find ways to strengthen your relationships with the States and organizations like the Port Authority and the World Trade Centers.

We would like to repeat that we think you ought to strengthen the United States and foreign commercial service program and integrate the program into the States. We don't think the USFCS people should be in the business of export counseling. We are in the business of export counseling.

We have people represented in our offices across the State. They are not in the offices alone. They are collocated with people who help businesses with finance, manufacturing, productivity, job creation, and training programs. They are all in one office.

One-stop shopping exists in New York State. You should not create another source of services that is separate from what has been built over the last half dozen years. We think you should put a clear priority on supporting high technology products and service exports.

I would echo what has been said about agricultural exports. New York is a big agricultural State second in apples, onions, many other commodities, and dairy products. But our future in manufacturing and services is going to depend on our strengths in high technology. We think that is true, not just for New York, but in a lot of other States as well.

We think you should set a priority on that. I would like to echo what has been said about export finance and the Eximbank. We are just beginning to put together a short-term, working capital, export finance program with pension funds from New York City. They have committed $30 million to a short-term program with us.

We will be working with the Port Authority which we have some experience with as one of our finance agencies in offering export financing. As you develop Eximbank, and we hope you do, we think you ought to move Eximbank out of Washington and place it around the country. The strongest thing you can do is to put them in offices like we have developed in New York.

Finally, we think you should take a look at experimental programs around the country and help them out with a little money. Our programs are going to be chronically underfunded. There is no question about that. We think you can use relatively small amounts of money to strengthen programs you think work best.

For example, I mentioned the matching grants program that we do that helps companies develop strategies for specific markets. It is only in its second year.

We are only in the second month of our fiscal year, and we have $1.3 million worth of applications in. They are coming from every industry and a good number of defense companies. We are probably going to receive somewhere in the neighborhood of $3 million worth of applications this year. That is very good. We will be able to work with the best. But we have a big selection of companies out there that need our help that we are not going to be able to serve this year.

We think there is a big job ahead of us. We think that the Federal Government and the attention it is paying to trade with the new administration should accomplish a lot of very good things. The point we would like to make to you most directly is that we would like to build on the experience that we have had over the last few years and develop a real strong partnership with you.

Thank you.

[Mr. Gaetano's statement may be found in the appendix.]

Chairman SARPALIUS. Thank you very much, Tony.

All of you have done a superb job in giving us information on the success that you have been having in dealing with exports. We now have several questions.

Please keep in mind we are trying to learn from your successes. We are looking for ideas. All of you talked about one area we could work on which is an area we recognize, finding a more effective way to streamline Government.

Some of you mentioned specific agencies that you have dealt with that you have had some success with. As I said earlier, we have 10 different agencies that have 150 programs relating to trade. We are kind of using a shotgun approach instead of rifle approach.

I wanted to start by asking you, Bill, how do the Europeans in general gather trade leads and once they gather a trade lead, how do they distribute that lead to a business? How do they determine which business is going to take advantage of that?

Mr. NOTHDURFT. It varies enormously from country to country. Just to pick one unusual example, in Sweden the diplomatic service is not responsible for staffing its overseas offices, for doing market research, intelligence gathering, and gathering trade leads.

The Swedish Trade Council, a 50/50, public/private entity finds mid-level executives and posts them overseas for a period of time. It is looked upon as a major step up for that executive. That person then becomes an agent of the Government looking for trade opportunities and then comes back into the Swedish Trade Council and to his firm as an expert in that market. So, they are constantly creating new exports experts who they turn back to the private sector. They provide access to trade information for other companies through the Swedish Trade Council.

The Germans have probably the most exceptional private sector trade development and trade lead data system among the European countries through their bilateral chambers of commerce. Remember that chambers of commerce in Germany, France, and Italy have public law status. Each company has to be a member. That means the chamber system has a lot of money. They use that money wisely by developing trade relationships and offices in countries and cities around the world. It is a business-to-business process, a much more private sector process.

So, the answer is that it varies enormously. One last point on that subject. At least the businesses that I had the opportunities to talk to had the same complaints about computerized trade lead data systems that our businesses do. Sometimes the information is old, the deal is dead.

I am more interested in company-to-company, country-to-country deal development than in sophisticated trade-lead data systems. I think a lot more money and a heck of a lot of attention is focused on the design of the trade lead data systems than is done in doing the deal.

I think if we spent more time doing deals and less collecting data, we would be better off.

Chairman SARPALIUS. Let me ask the rest of you if you can answer along the same line. Ms. de Bartolome, do you follow up on these trade leads, and how do you make the determination of how to turn leads over.

Ms. DE BARTOLOME. We have a defined group of companies, about 50 client companies that we work with. So, if it is a trade lead in one of our product areas, we go to the company whose product we know, we get the trade lead to the right persons and we act on it through our overseas offices.

There are a number of sources for trade lead information. The World Trade Centers Association has an international network called Network. We work through our overseas offices. We have relationships with a lot of multipliers.

But probably the most important networker relationship for us is with our buyers and distributors. We have worked hard over 10 years to develop a network of people overseas who call us when they have needs in the areas we represent. We are very targeted. We don't try to be all things to all people.

Chairman SARPALIUS. Do they get a commission, or what is their incentive?

Ms. DE BARTOLOME. We are talking about overseas buyers and distributors. If they need food products manufactured in New York and New Jersey, they know we handle food. They know us, and they FAX us and say, do you have herbal tea, and we say, yes, sir, because we have a couple of companies in that business.

We are highly specialized. We have buyers overseas, and that is pretty much how we do our business.

Ms. HERNANDEZ. Our foreign office directors are in charge of developing sales in industries we target. They make presentations to the industry chambers of commerce since, as Mr. Nothdurft described, business membership is compulsory.

When the leads come back in, they simply go on the Texas marketplace bulletin board. We have tried in the past, to screen companies that should get the lead and that should not. We have been soundly scolded for that through the State legislative process. This is considered State information and must be made available to anybody who wants it, so it is made available to anybody who wants it for their own personal followup.

Mr. GAETANO. This has been an interesting question in New York. Four or 5 years ago we did trade leads, as the staff felt, as an export education tool. We used to send 11,000 manufacturers' trade leads for free. We decided we could not do that anymore. We charged $25 for it, and our subscriber base went down to 1,000 firms overnight. A year later we decided that $25 was still a hell of a bargain, and we wanted to target certain industries because most of those leads were in a few categories.

We wanted to get the leads out on a more timely basis. So, we now charge between $50 and $250 depending on the quality of the service, or how quick they want information. We are now down to 250 subscribers with what we believe is an excellent service. As Bill said, we have invested a lot of time and money putting together what we think now is a very good product.

We will look for a couple of years to see how that product works, improving it as we go along. We will never recover the development dollars we put into this service. Also people who get it, love it. They absolutely want to have it. It generates, based on our surveys, between $40 and $50 million worth of annual sales.

Whenever we talk of scrapping it, our clients get very upset. We think it is a good program but it has to be brought down to a process where it will pay for itself.

Chairman SARPALIUS. Let me go one step further. After you have identified potential buyers of a product overseas, Karen, I think you talked about where you assign a counselor or somebody who helps assign a business through that process. Can you tell us a little more? Do you have counselors or somebody assigned to that?

Ms. DE BARTOLOME. We have 5 product groups. We have a product manufacture and assistant in each group. We are not working inside the company, but we are working very closely as consultants to the company. We feel we have two roles. One is to train them over a period of time to be independent exporters, incubating the next generation of exporters. The other is to work with them on real sales, in return for which we receive a commission of between 5 and 15 percent depending on the commodity. So, there is a point at which we are asking the company to commit their own resources.

If we find we are doing some of the front end work of the company, initial training, market research, and they are not willing to get on an airplane and go to a trade show or they are not willing to modify their product or they are not responsive to the first couple of requests for price quotes they get from overseas buyers, we are not anxious to work with them.

We feel this is a mutual relationship. We are making a tremendous effort of time and labor to work in this way with companies. We are looking for their commitment over time to match ours. So, that is really the role our people play. Each product manager right now has probably seven or eight companies for a total of about 40 clients in 5 groups, about 8 a piece.

We have two people working with eight companies. That is the intensity of effort that we are putting forth. That seems to be what it takes. We are looking for ways to leverage these efforts so we can take on a few more clients, but we feel if we spread ourselves over too many companies, we would lose that direct contact and the ability to do that hands-on training that we do now.

Ms. HERNANDEZ. We don't get a commission on any deals done because we don't provide the assistance that Karen provides. We don't get business for particular companies. It is through a trade mission or catalogue display that we will take company literature and try to sell it overseas. There are fees for those services.

Our counselors are divided among regional lines.

Mr. GAETANO. We moved several trade specialists out of the New York City headquarters and into several regional offices. We don't have a trade specialist in every region. We can't afford to do it. We make grants to organizations which fill in for us with counseling services.

It is one of the best things we do because these people can spend a considerable amount of time with an individual company, and they are a great resource. I don't think we are getting what we should be getting from this process yet, because there is a lot of staff resistance in our agency to do what Bill may not have recommended explicitly but, I think, is contained in some of his ideas.

We are considering contracting with every one of the companies with whom we spend a significant number of hours. We should consider retaining a percentage of sales as a fee. There might be opposition in some of the regions if we even suggested doing anything like that. Most of the companies feel they deserve the services we provide for free.

But I think there is some place in between where there is a level of commitment by the companies that we work with that intensively.

Chairman SARPALIUS. Bill, how do the European businesses or these chambers of commerce or whoever a small business uses to sell their product over here, how do they charge? Do they pay a fee or a percentage?

Mr. NOTHDURFT. It varies enormously from country to country. More often than not, there is a cost recovery. There is a specific menu for services, and there is a fee structure for the services. The fees have been going on almost precisely as Tony mentioned. In other cases, there are contractual relationships by which the firm pays royalties up to a certain level for a certain period of time on the deals they received public assistance putting together.

Whenever I have mentioned contracts and royalties in the United States, people have said it is impossible, it takes too long for a deal to go through. My response to that is nonsense. Companies know what contracts mean. They can develop contractual relationships on a whole variety of things. They can do it in this case. In the United States, we are beginning to see contract-based relationships between a public agency counselor and a client company and the sharing of costs in the provision of those services.

In Oregon, for example, one of the most business-like, State export assistance offices, the firm commits to paying for the travel costs of the export counselor as part of the up front cost of doing the deal. They have a contractual relationship with those companies, and the contract specifies what the public agency will provide by way of help to the company and what the company is expected to provide by way of assistance and cooperation to the private agency.

I understand quite recently they have instituted fees, a commission return on sales. There needs to be an acid test for the value of assistance we propose to provide to the small to medium companies and the best way is to charge a fee for it.

Ms. DE BARTOLOME. There are other ways in which I think the European countries support the development of exporters. For example, export has had for the past 8 years a steady line of European business students who come to us working 3, 4, or 5 months. All their costs are covered by the European Government. Their stipend, travel costs, their rent, you name it. They come to us absolutely free. They get very valuable experience.

This is considered a sort of entitlement as part of their graduate business education in Europe. We have yet to be able to find the same sort of arrangement with American students. We regret that we are not in a position to provide this kind of opportunity for American business students. We probably have four Europeans with us for the summer. This is something else I would put forward for you all to think about, some sort of training. This is invaluable overseas experience.

Mr. NOTHDURFT. I would like to follow up.

France has an alternative military service program. There are not a lot of wars to fight. There are a lot of French young people. Although some sort of service is compulsory, it need not be military, it can be nonmilitary. So, there is an alternative military service.

In this program, just to pick one example, Brittany has a public-private trade development program, and they have, by last count, I think, three or four offices in the United States staffed by young graduates of business schools who are serving their country, because France thinks of this as strategically important, by working in their branch trade offices here in the United States.

Interestingly, in the Pacific Northwest, that branch office is in the office of the trade division of the State of Washington, literally in the same office. They lease the space.

Ms. HERNANDEZ. If I can just underscore, one of the issues I listed as critical to small business is information and access to information. Part of this comes with what you bring with you to a company. We have people who have graduated in international business who do not have to demonstrate proficiency in a foreign language and who never set foot outside the United States. They will put in their hours and take the foreign language, but they don't have to demonstrate proficiency. But they may never have been anywhere.

This is a real problem, and one for our high school education, too. We are not an international literate country. The programs that have been mentioned are examples of countries truly international in their outlook. We tend to be insular. I know you cannot control everything, underscore. There are reforms that could be made in education, that would be very important.

Chairman SARPALIUS. Mrs. Clayton, why don't you go ahead and ask your questions. I will recognize my colleague Representative Clayton from North Carolina.

Mrs. CLAYTON. Thank you for holding this hearing. I would like to submit my formal statement for the record.

[Ms. Clayton's statement may be found in the appendix.]

Mrs. CLAYTON. I wanted to ask Mr. Nothdurft, since the rest are calling you Bill, I guess I will do that, too.

Mr. NOTHDURFT. Please do.

Mrs. CLAYTON. Can you comment on the kinds of service you think would be essential in the package other than the financial services?

You went into detail on the need for financial services, but I would like you to help me understand what else would be essential to enable a medium-size business to begin exporting?

Mr. NOTHDURFT. I do think, by the way, that the most likely target is the mid-sized manufacturing firm. One of the great benefits of having grown up poor in a pretty tough neighborhood without much money is you get used to discipline. If you have only a quarter in your pocket, what are you going to spend it on? We should be thinking in those terms these days.

I would focus on the mid-sized manufacturing firms because that is where the high-value exports are. The first is company strategic planning; get the company to provide the business plan. Second, market intelligence. That is different than simply trade leads. It is actually being able to research a project, to provide information on opportunity in that market, and provide information on potential niches that could be opened.

Mrs. CLAYTON. Who should provide that?

Mr. NOTHDURFT. I think that is uniquely the FCS's responsibility. The States will tell you that one of the most useful things the Federal Government can do, in addition to data, is market intelligence gathering which they simply cannot do effectively on their own. I love to throw firebombs. So, I would throw this firebomb. Somebody should simply ask the question, why is there an United States in the USFCS.

There are series of three national disgraces I would ask you to focus your attention on. One of the national disgraces is the FCS. They are not a national disgrace because they are not doing good work. They are a national disgrace because we do not give them the resources that every other competitor nation which they have to compete with gives their international service. Ours is truly an international disgrace.

Trade data in general is a national disgrace, or was until recently. It took this country 5 years to fund the Census Bureau to analyze information they had collected on who is exporting. We didn't have a clue who the exporters in the United States were. They didn't know the value of their exports or where they are exporting to or how frequently. Census collected the data, but no one would fund them to key punch it. That is a national disgrace. We cannot make good policy without doing that.

I want to suggest the USDA's Market Promotion Program is a national disgrace as well, at least in its current form. Taxpayers have no business underwriting Gallo, a $1-billion-a-year company, to develop a market overseas. Taxpayers have no business underwriting M&M, Mars, or McDonald's. That is a situation of the emperor who has no clothes on.

Mr. GAETANO. If I can add a comment, we should look at service exports. New York State is a tremendous service-oriented State with large growth in service exports. Actually, Karen's World Trade Institute should be seen as an exporter of educational services. She gets thousands of international students from around the world to come to New York, stay there, spend money there, and use the World Trade Institute. A lot of that kind of training goes on in New York State.

A lot of other companies support exporters and importers in New York. Our software industry is one of the fastest growing in the State. Our environmental management industry is one of the fastest growing in the State. Energy conservation services are fast growing. They are related to manufactured products but are a different commodity, and something we are looking at not just in marketing but also in the question of finance.

Ms. HERNANDEZ. We have no way to measure trade-in services, and that is a problem globally.

Mr. NOTHDURFT. Occasionally, the Washington Post and other national newspapers will publish information on U.S. service exports. It would appear that we are really a powerhouse in service exports. If you go into the Census Bureau and try to find out what the sources of those data are, you will not succeed.

I talked to one gentlemen in the Foreign Trade Administration and asked him. He said, "There is a swami in the basement." We simply do not have good service sector export data.

Mrs. CLAYTON. You refer to the fact that although data is important, you thought there was also some validity in emphasizing the deal-making process. That is more of a brokering arrangement.

I was struck by the port authorities's role as a broker. I usually think of that more as a private sector activity.

I am a member of the Agriculture Committee. I have just been informed that we are going to make some fulfillments on the arrangement the President made to Russia. The idea is again not necessarily going just to the Government but going to individual opportunity.

Comment a little more, if you will. How is the United States able to be in a position to broker that?

Mr. NOTHDURFT. Let me just make one point, because while I have said there are some emperors who don't have any clothes on, there are also some emperors who have clothes on who represent real opportunities.

The best place for deal brokering to occur is, as Tony says, at the State level. This is a relatively novel development. States have become very sophisticated trade players over the course of the last 10 years. The amount of money that the States together spend on export market development is roughly the same as the total amount of money that is available to the USFCS. Some are very sophisticated. They vary in quality from State to State. You have some of the best in the Nation at this table.

Indeed the Port Authority of New York and New Jersey's XPORT Trading Co. is, in fact, the grand-daddy of what I would consider high yield as opposed to high visibility export market development. The deal making is best done between the company and the companies' closest trade counselor, typically someone in the State trade office. That someone has to have experience in the market, has to speak the language of that market. It cannot just be a civil servant who has been working in the State Department of Commerce for a number of years and has been promoted to the position of a trade counselor. He needs to be a professional. That is happening at the State level, though slowly.

Some States have been able to reach even further down to local development agencies and provide training to those local development agencies—sometimes to the private sector, sometimes quasi-private, sometimes public sector or nonprofit organizations—to have them be the actual deliverers of the service and the deal brokers. But ultimately, the exporting occurs on a deal-by-deal basis. The closer you can get the client and the services, the more likely those deals are going to happen successfully.

Ms. BARTOLOME. May I respond on the public sector, private sector arrangement you mentioned with respect to our program? Our program is sort of modeled on an export trading company which is a private sector model. We differentiate ourselves from a typical export trading company by virtue of the newness and the smallness of the exporters that we work with.

When we have been challenged with this issue in the past, the answer that we have used, and I think the export trading community is now accustomed to hearing this and agrees, is that we are growing their future customers. When we are finished with somebody, then they are a good customers for an export trading company.

Mrs. CLAYTON. Thank you, Mr. Chairman.

Can we also pose these questions to other States? It is a good inquiry, and it helps me focus on how well my State compares.

Chairman SARPALIUS. Sure, we will be glad to.

I would like to have your responses on the NAFTA agreement as you know it right now.

Mr. NOTHDURFT. I will not respond. It is not because I don't have opinions about it; it is because they are not informed opinions. My guess is nobody should be responding if they have not read it, and it is thousands of pages long.

Ms. DE BARTOLOME. I will plead the Fifth, too.

Ms. HERNANDEZ. I have read a good portion of the NAFTA text. Obviously it is good for Texas, so generally speaking we are in favor of that.

With all trade agreements, we think there are good areas and bad areas in the agreement. Some areas more closely approximate a free trade agreement than others. By and large, I am philosophically a free trader personally, and I think it is good.

Mr. GAETANO. We are generally in favor of it. We have some problems with it because we have had two very bad experiences with companies that moved to Mexico despite all of our promises of assistance to keep them.

But I don't think there is any question that a much stronger economy in Mexico will be a benefit to our country, and it will be of benefit to New York, although not as much as Texas or California. But exports to Mexico from New York State are up over 100 percent over the last 5 years. Much of that is trade is between the maquiladora plants and firms like Kodak and IBM in New York State. But that has made our companies in New York State stronger as well.

Chairman SARPALIUS. Well, the whole purpose of NAFTA is to help our businesses prosper and from what we are gathering from some of our information, for example, in Canada—Bill, you probably are familiar with this—there are about 112 trade representatives from Canada in the United States, and I think the United States has 8 in Canada. I hope we don't find ourselves in the same situation with Mexico. If this agreement comes about, we need to aggressively try to do the best job we can in capturing markets there.

Ms. HERNANDEZ. I could not agree with you more, Mr. Chairman. We are very close—right on the border with Mexico. We are seeing other governments moving to take advantage of the vast economic change that is taking place in Mexico even to a greater degree than we are in the United States.

Mexico is predisposed to want to buy things from the United States. The relationship has been very close for a long time. I would implore you to do what we have all suggested, which is adequately fund the U.S. Foreign and Commercial Service and stay aggressive in a market that should be ours.

Chairman SARPALIUS. I have tons of questions I wanted to ask you all. Let me cover one or two areas real quick.

Bill, you mentioned something a while ago about how you thought we were wasting our money helping McDonald's, Gallo, and some of these other companies. If you had the authority to reappropriate that money, where would you put it?

Mr. NOTHDURFT. At the risk of being incredibly redundant, I'd give the money to the FCS. Sometimes you have to look beyond the number of agencies that are involved in trade promotion and the number of trade programs to what really matters, which is "where the beef is," to pick an old political line, that is to say "where the money is." When three-quarters of the money the United States spends on export promotion is going to USDA, the products of which represent only 10 percent of the total value of the U.S. merchandise exports, something is rotten in Denmark. I think that is, to use the National Performance Review's favorite line, a low-hanging fruit ripe for the picking.

I am not saying scrap the program. I am saying look at that program very, very carefully and find out whether it makes and sense. I am not convinced it does. Those resources are better spent in making this country more competitive in market development by strengthening our intelligence gathering capabilities in those markets.

I would say we should do what we can to eliminate the proliferation of local, district, or regional Federal offices throughout the countryside and collocate those offices with the State trade agency, and second, eliminate those offices once the State trade agencies has been able to take on the devolved responsibilities that formerly would belong to Federal agencies.

Mr. Chairman, I have a commitment out of town that I am going to have to leave for in just a few minutes. I wanted to make two more points, two more emperors that do have their clothes on.

I mentioned I think that the FCS needs to be strengthened and that there are resources that can be redeployed to strengthen that agency and make it whole. There are two other programs that I would suggest that the United States and the members of this committee focus some attention on.

The first is the City/State program of the Export-Import Bank. This is something that works. It works brilliantly in some cases where the infrastructure at the State level is in place and you have banking professionals who can be trained by Eximbank to represent them. I will pick one example. There is an Export Assistance Center of Washington in Seattle that helps package financing for export deals. They joined the City/State program a year-and-a-half ago and at the end of their first full year of participation were the number one performers in the Nation, placing a total of $45 million worth of financing, $30 million of which was Eximbank financing. It is a program that can work. We ought to get away from what I like to call "the demonstration disease." It has been demonstrated. Roll it out and get on with it.

The second point was that there is another emperor who has the potential to have clothes on and that is the Trade Policy Coordinating Committee and the National Performance Review. These are people working very hard to rethink the Nation's export promotion programs. If we can get them to focus on the strategic issues and think about the very basic issues like who are the clients and what should we do for them, I think there is potential for really reinventing the Federal trade promotion programs. I am not sure that opportunity is going to come around again any time soon.

Chairman SARPALIUS. Let me make one point quickly. This committee is struggling with the turf battle between these agencies on their programs. The same thing occurs also with the money.

I, too, am a member of the Agriculture Committee, but I have had the same feeling that we could probably spend this money much more wisely somewhere else in some of the areas that you are talking about. Please understand our frustration. But we want to learn from you what Federal agencies have been most successful to you, what programs are working? Which ones are we wasting our money on? We are looking at consolidating to do a more efficient job.

Mr. NOTHDURFT. The only thing I know is what people have asked me to learn. Nobody has asked me to learn that. I would submit that almost nothing has been done to evaluate the effectiveness of the many programs you mentioned that exist.

They have been created for good, well-motivated reasons. There is another one about to be created through Gerry Studd's office, EnviroTech Exports Program. It is a very good idea, but I don't know if it deserves to be another program.

I am not sure it is possible to keep those things from happening on a daily basis. I would hope the opportunity of the TDCC and the National Performance Review gives us a chance to ask hard questions about what is and what should be.

In the case of USDA, I was asked by someone why is it that USDA has three quarters of the money. I said it is because they have been international a whole lot longer than the rest of the economy. There is a reason why all that money is there, and that is the reason. That doesn't mean we cannot scrutinize it and restructure it if in some ways it doesn't make any sense.

Chairman SARPALIUS. Let me ask one more question.

I wish we could go into the banking aspect of it. Bill, if you need to go, please free feel. I appreciate all that you have provided for our committee.

We are going to do another hearing on the problems the small businesses are having with loans, particularly dealing with exports. For the three of you, I would like to get your opinion. First, the Federal Government again, we are spending money putting offices overseas. All three of you are talking about offices that you have utilized overseas.

Do we have any duplication there? Are you having any success utilizing offices the Federal Government would have versus what offices the States would have?

Ms. BARTOLOME. Our experience using the FCS overseas, which is mostly what we use, although some embassy personnel as well, was very positive. The limitations seem always to be resources in the case of FCS. They are not as well staffed as we think they should be in key markets.

They have a lot of sort of falling, what I think are sort of falling limitations in their ability to travel and do some of the things that would make them more effective within their market areas.

Ms. HERNANDEZ. I think there is duplication, but I think it is as much the fault of States as it is the Federal Government. We even have cities in Texas that are establishing foreign offices. It seems the old adage is "They are not doing what we need them to do so let's do our own." Recently, the National Association of State Development Agencies has worked very hard to help us forge a cooperative relationship with the U.S. Foreign Commercial Service overseas.

There will be a pilot program to have States hosted in with the USFCS in foreign embassies. I think it is a great step forward if it can be fostered. It is much more cost effective for the States. By and large, the USFCS overseas is doing what we need them to do, but they don't have enough money, and they don't have enough staff, and they are spread way too thin.

Why are States gathering trade leads, and why are States setting up appointments for businesses overseas, and why are States setting up trade missions overseas?

It is because there is not enough USFCS staff to go around for us to contract with them to do it. I think it is time that we visualize a partnership going in both directions; that rather than saying we are not getting what we need, so, therefore, we are going to do it, let's say bottom up, let's make them be responsive.

I would encourage you to hear from MASDA by the way because I think they have done a lot to help States with their relationship with U.S. Foreign Commerce Service and USFCS has responded very nicely.

The short answer is yes; there is duplication, but I think there is duplication for a reason. If we can look at ways to combine those assets, I think we would all be better off. I think we have a start. I would like to encourage USFCS to continue in the direction they are moving.

Mr. GAETANO. We don't use them much. Where we do, they are helpful, the FCS and the commercial attaches at the embassies have been very useful. Relationships have developed and even as those people move around, they have been helpful. I think you are in the business of redefining the role of the FCS and of the Federal agencies.

You have to look at the relationships of very strong, I think, strong agencies around the country that I think you should be using.

Chairman SARPALIUS. You all have been very patient. We have been here a couple of hours. I want to thank you so much for your testimony and for the information that you have shared with us.

I hope you can understand the frustration our committee is going through in trying to find a more effective way of helping small businesses. I keep remembering the statistic over and over in my mind that says for every $1 billion we had can increase exports it is 20,000 jobs.

We are going to continue to try to learn as much as we can about the programs that the Federal Government has. We have a few questions I would like to send in writing, and if you could answer them for us, we would appreciate it.

Thank you so much for your time and your information.

This meeting will be adjourned.

[Whereupon, at 12 noon, the subcommittee was adjourned, subject to the call of the Chair.]

APPENDIX

STATEMENT OF REP. BILL SARPALIUS, CHAIRMAN
SUBCOMMITTEE ON THE DEVELOPMENT OF RURAL ENTERPRISES,
EXPORTS AND THE ENVIRONMENT

HEARING ON THE EFFECTIVENESS OF STATE EXPORT PROGRAMS

June 8, 1993

Let me begin by welcoming everyone to today's hearing. This hearing will examine the actions that a few states have taken to tap the export potential of their small- and medium-sized firms. We will begin by examining individual export programs -- both here and abroad -- for universal principles that the federal government can apply to its own export efforts. The information gathered in this hearing will help shape the public debate on the strategic direction of the federal government's export assistance efforts.

The bottom line is jobs, jobs, and more jobs. Public investment in programs to increase export volume translates directly into high-wage jobs -- paying as much as 17 percent more than the average American wage. In short, the time has come to focus our public investment on projects that have an assured long-term return.

For too long, U.S. policy-makers have focused all of their energy on negotiating favorable trade agreements, but have not invested the same amount of time and energy into our trade development infrastructure. Without a comprehensive trade development infrastructure, U.S. small- and medium-sized businesses will not reap the benefits of a favorable trade agreement.

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Add One
Sarpalius Opening Statement...

For instance, while much debate has been given to the pluses and minuses of the North American Free Trade Agreement, little time has been spent in examining how we can help U.S. small- and medium-sized businesses take advantage of the NAFTA.

We need to develop our nation's competitiveness AND our capability for trade, if this nation is to remain a great power in a global economy. We are at war -- with ourselves and our competitors -- fighting against a sputtering economy and a declining standard of living. To end this trend of decline, this nation urgently needs to unlock the international potential in each and every business -- small and large -- in this country.

The challenge lays before us, but -- at the federal level, at least -- we have not responded adequately. The 150 unfocused federal export assistance programs testifies to the fact that the federal government has failed to meet the challenges of a global economy.

In an era of increasingly tight budgets, federal agencies have substituted export program public relations for positive results. The 10 different federal agencies involved in export assistance remind me of a scene out of Lewis Carroll's Alice in Wonderland -- of henchmen painting white roses red to please the Queen.

Instead of shouting "Off with their heads!" this Subcommittee intends to look at what we are trying to achieve and what is the best way of arriving at that goal. Certainly, streamlining these 150 programs is in order, but we must streamline towards a constructive and effective result. Simply gutting agencies and programs is not the answer.

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Add Two
Sarpalius Opening Statement...

The concept is simple: develop a comprehensive trade development strategy that partners the federal government with effective state, local, and private trade development efforts. It's the execution that's difficult.

Today's hearing examines Europe's export efforts for principles that can be made to work here. Furthermore, we will spend considerable time exploring the efforts of several state export programs.

While each state has responded differently to the export challenge, the states represented today can shed some light onto what has worked and what has not worked for them. At a later date, we will invite other states to testify as to their efforts.

This hearing is just one of the first steps in framing a comprehensive federal trade development strategy. In the course of this year, we will examine as many areas of trade development as possible and make recommendations to Congress and the President. As I've said before, increasing America's exports and her competitiveness is the best source of job creation and sustained economic stimulus.

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Statement of Congresswoman Eva Clayton

Small Business Subcommittee on Rural Enterprises, Exports and the Environment

June 9, 1993

I want to thank the Chairman for holding this hearing, and the witnesses for their truly thoughtful testimony. The current state of our economy necessitates the Federal government's taking a more active and effective role in helping small businesses across the nation develop export markets, and I look forward to discussing with the panelists what type of role the Federal government should take.

At this time, when Congress and the Administration are focussed on developing the North America Free Trade Agreement and the General

Agreement on Tariffs and Trade, we recognize how important international trade is to our communities. However, along with ensuring that these trade agreements offer level "playing fields", we should also be looking at the other side of the coin, to what needs our small businesses may have in developing international markets.

My experiences with the small business community lead me to believe that in general, small businesses cannot afford to invest their scarce financial resources into developing export strategies. Therefore, in light of how important exports are to a more healthy national economy, we need to ensure that our small businesses receive our support in expanding their markets overseas.

Again, I thank the Chairman for holding this hearing and I look forward to discussing this issue with our respected witnesses.

STATEMENT OF CONGRESSMAN GLENN POSHARD
COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON RURAL ENTERPRISES, EXPORTS AND THE ENVIRONMENT
JUNE 8, 1993

Mr. Chairman, I would like to thank you for holding this subcommittee hearing regarding "Small Business Exports: The State Approach."

As a representative of the 19th District of Illinois, I have a significant number of different types of businesses that need our attention. The coal, agricultural and manufacturing industries in my district all have great potential in the export market. Despite that, few if any of these businesses have come close to reaching their potential in the ever widening export market. I think the subcommittee has identified one of our challenges in reversing that trend, in that the scope of our export plans is often not sufficient due to restraints of money, time, and manpower.

It is my hope that continued research and hearings such as this one will help produce the answers to help us, our state governments and small businesses everywhere find the "winning formula" for producing a program that will allow businesses to achieve their potential. Thank you, Mr. Chairman, and I look forward to hearing from our witnesses.

JOEL HEFLEY
COLORADO
FIFTH DISTRICT

COMMITTEES
ARMED SERVICES
SMALL BUSINESS
INTERIOR AND INSULAR AFFAIRS

Congress of the United States
House of Representatives

June 8, 1993

Introductory Statement of
Congressman Joel Hefley
Subcommittee on Development of Rural Enterprises,
Exports and the Environment

Mr. Chairman, first I want to thank you for continuing this Subcommittee's investigation into government export promotion programs. As you have already pointed out, this time we look toward the state-run programs.

As is the case with so many issues before Congress, there's evidence that many states lead the federal government in targeting export opportunities and providing the necessary assistance. Certainly, my own state of Colorado has been very active promoting Colorado industries in foreign markets. I'm sure the state represented today can give us a good overview of activity at the state level.

One area I am particularly interested in is the how each export program before our Subcommittee today measures its success. One of the glaring findings of our previous hearing was the total lack of accountability integrated into the hundred plus federal export programs currently operating. At both the state and federal level, a reasonable measure of success or failure should be incorporated into export programs

Finally, I should express some reservations about the growing call for a national trade strategy. As with all other government initiatives, the "devil is in the details" but certainly the past history of managed trade is not a happy one. Even the much admired trade ministry in Japan is coming under criticism for inhibiting, not promoting, the remarkable growth Japan has experienced in the last half century. My impression is that export promotion programs are more suited to facilitation rather than management.

Once again, I thank the Chairman for holding these hearings and I look forward to hearing the remarks of our witnesses.

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STATEMENT OF CONGRESSMAN JIM RAMSTAD
BEFORE THE HOUSE SMALL BUSINESS SUBCOMMITTEE ON EXPORTS
June 8, 1993

SMALL BUSINESS EXPORTS: THE STATE APPROACH

Mr. Chairman, I want to thank you for calling this important hearing to examine the experiences of 3 states in helping small and medium-sized firms export.

I also want to commend you for your courageous vote against the jobs-destroying and export-stifling Clinton tax package, and I look forward to your continued leadership on this subcommittee.

In our increasingly global economy, it is absolutely essential to continue the strong growth in exports we have enjoyed in recent years. Exports accounted for 70 percent of the growth in our country's GNP over the last three years. In 1991, exports reached a record $422 billion. Without overseas markets for U.S.-made goods, the recent recession would have been even more devastating to our economy and workers.

In recent years, trade-related jobs have grown three times faster than overall job creation. In my state, there are some 95,000 jobs directly related to foreign trade. Almost 2,000 Minnesota businesses export. Clearly, trade is vital to the health of the U.S. economy.

We all know the value of small businesses to our economy. Small businesses account for some 85 percent of the job growth in our economy, and in fact, created <u>all</u> of the net new jobs in this country between 1988 and 1990, according to the SBA.

It is obvious that encouraging and enabling the job-creating, small business sector of our economy to expand its ability to export is absolutely crucial to ensuring the long-term competitiveness and economic health of our country.

That's why it is so important to hold hearings like this to examine the effectiveness of state export promotion programs.

Mr. Chairman, we certainly need to thoroughly investigate these programs to determine whether they can serve as the model for streamlining existing federal export programs.

I very much look forward to hearing from our witnesses today. Let's hope today's hearing is the first step in that thorough -- and necessary -- reform effort.

It's Time the U.S Got Serious About Exporting

Statement of

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Going Global: How Europe Helps Small Firms Export
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Before the House Committee on Small Business
Subcommittee on the Development of Rural Enterprises,
Exports, and the Environment

June 8, 1993

House Committee on Small Business
Subcommittee on Rural Enterprises, Exports, and the Environment

It's Time the U.S. Got Serious About Exports

Statement by William E. Nothdurft

Mr. Chairman, members of the Committee, you have before you an unenviable task: getting the United States to take seriously the challenge of international trade. This and other committees have held hearings on the nation's export promotion programs many times in that past ten years. Each time, special attention is given to the trade assistance needs of the small and medium-sized businesses that make up the nation's economic base. So it's not a new task. The problem is that export promotion--I prefer to call it trade development--doesn't capture the headlines that, for example, trade policy negotiations do.

The new Administration, like the one that preceded it, is hard at work on both the General Agreement on Tariffs and Trade (GATT) and the North American Free Trade Agreement (NAFTA). The Administration wants a new GATT agreement, but is worried about certain unresolved issues--subsidies in agriculture and aerospace, barriers to government contracting, and intellectual property rights, among others. It is committed to rapid approval of NAFTA, but wants strong side agreements on environmental protection and workers' rights. The President and the U.S. Trade Representative call for "level playing field" trade policies.

But I would submit to this Committee that, as it engineers this level playing field trade policy, this Administration--like administrations before it--has missed an essential point: a level playing field is irrelevant if you have no team to field.

The plain fact is that, though they grab the headlines, trade policy negotiations are irrelevant for much of American industry. They don't matter because most American firms don't trade.

The World's Export Underachiever

The Census Bureau estimates less than 2.7 percent of the nation's 3.9 million enterprises do any exporting at all--only 105,000 firms. Of that tiny fraction, a mere 66 firms account for 54 percent of the value of all U.S. exports.[1] In short, the vast majority of firms don't export. Of those that do, their shipments are so small and infrequent that they have very little effect on the nation's balance of trade. In 1990, the U.S. exported $394 million in goods and services, about 7 percent of our gross domestic product (GDP).[2] In that same year, our larger European competitors exported anywhere from 16 to 27 percent of GDP[3] and the average for the entire 12-nation European Community was roughly 30 percent.[4]

Does exporting matter? Depending upon whose figures you use, exports have provided from 50 to 70 percent of the real growth in the U.S. economy in the last three years--years in which, it should be noted, there was precious little growth to begin with. Still, one would expect a nation to whom exports mattered so much to take aggressive steps to help more businesses become traders. Yet the U.S. does little. In 1987, the U.S. spent only $.06 per $1,000 of total GDP on export promotion.[5] In 1990, according to the U.S. General Accounting Office, that figure had actually dropped to $.04 per $1,000.[6] By comparison, In Germany, where export promotion programs are almost entirely funded by the private sector, the government nonetheless spent roughly twice as much. Canada spends ten times as much.

What's more, while the government claims to be targeting small and medium-sized manufacturers for export growth, the GAO reports that 74 percent of all federal spending on export promotion goes to agricultural exports, which account for only 10 percent of the value of U.S. exports.[7] Indeed, USDA's Market Promotion Program alone--which promotes the exports of such struggling small businesses as Gallo Wines, Sun-Maid raisins, M&M Mars candies, and McDonald's--spent more in 1991 than all of the Commerce Department's export promotion programs put together.[8]

The nation's most visible recent export promotion program was the Bush Administration's National Export Initiative, a sort of road show that had Commerce Department and other U.S. officials traveling from city to city to encourage small businesses to export--as if lack of enthusiasm were the principal barrier.

Mr. Chairman, a lack of enthusiasm is not the problem. The problem is that this nation has only recently been forced to accept that in order for our economy to grow, our businesses--large and small--must be willing and able to trade internationally. Unlike all of the other industrial nations with whom we must compete, however, the United States has no coherent trade development strategy in either the public or private sector and shows little interest in developing one.

At present, export promotion services are scattered among at least 10 federal agencies and neither the funding nor the programs themselves are guided by a coherent, government-wide strategy or set of priorities.[9] The Export Enhancement Act of 1992 (P.L. 102-429) created a Trade Promotion Coordinating Committee and mandated both a government-wide strategic plan and a unified federal export promotion budget, but neither has yet materialized.

Into this void have stepped the nation's state governments. In 1992, states spent some $100 million on trade promotion but, like their federal counterparts, most states have only a vague sense of their strategic objectives in trade promotion and few have systems for measuring the results of their efforts. Indeed, a recent Small Business Administration study of state export promotion programs found that, "Not only is it impossible to relate state export promotion activity to overall state exports, it is impossible to relate state export promotion activity to exports by the very firms which have been helped." I suspect much the same could be said of our federal programs.

High-Yield Export Services: Ten Guiding Principles

At both the state and federal levels, the core problem with programs designed to help firms export is lack of clarity on some very basic questions: What is our objective? Which firms should be served? Which should not? How should services be delivered and by whom? Which barriers to exporting are real and which are imagined? Who should pay for these services?

Take, for example, the question of objective. Is the government's objective to increase the *number* of exporters or the *volume* of exports? If it's the former, you focus on motivating non-exporters to go global. If it's the latter, you focus on helping existing but infrequent exporters become more effective and on experienced firms entering new markets. The programmatic tactics associated with pursuing one or the other of these two alternatives will vary enormously, but few export assistance providers, at either the federal or state level, can articulate which strategy they are pursuing.

The correct answer, by the way, is increasing the *volume* of exports, and you do that by helping the small to medium-sized firms--especially manufacturers. Why these companies? First, because no amount of federal money is going to make much of a difference to the largest exporters. Second, because these inefficient small and medium-sized exporters have already demonstrated by their own actions that they are willing to go global. They don't need motivational seminars, they need tangible assistance.

Our European competitors have established a wide array of public and private sector export assistance services geared to meet the needs of smaller firms. Some of these programs are new, others are decades old. Their breadth and depth vary, as do their delivery mechanisms. But the financial and political commitment to these programs is impressive and remarkably consistent from country to country--regardless of political ideology. From these experiences, ten principles emerge.

1: The primary barriers to exporting are internal to firms, not external in markets.

The real reason small and medium-sized companies don't export is because their owners have neither the time nor the inclination to do it, not because they don't know they should. Export market development is resource-intensive. It takes money to research markets, modify products, and finance deals. It takes skilled people to develop, execute, and service those deals. And it takes time to overcome a seemingly endless stream of procedural barriers. If you had to list the resources small businesses are *least* likely to have, those three things would be right at the top. Consequently, most firms begin exporting haphazardly--if they begin at all--often responding to a chance overseas order without considering the implications...which leads us to principle two.

2: Export development is part of company development; it is a process, not an event.

Companies that fail at exporting are twice as likely to have begun with an unsolicited order than as a result of a specific export plan. Consequently, throughout Europe and, in rare instances, here in the U.S., public and private export assistance programs are pushing firms to think of exporting as an integral part of their corporate strategic plan and, where no such plan is evident, helping firms develop one as a precondition for export assistance.

3: Target assistance to the "export-ready."

In the U.S., what little export assistance is available is available to everyone. It shouldn't be. Lavishing detailed technical assistance on a firm that is unprepared strategically is not only a waste of money, it can threaten the stability of the firm itself. Consequently, in many European countries, detailed assistance (such as assisted market research or trade fair participation support) today is made available only after firms have participated in an "export audit" designed both to illuminate the firm's capabilities and to help firm executives understand what they're getting into.

4: Strengthen the "export-willing" -- or create intermediary bodies to handle exporting for them.

Many more small and medium-sized companies are export-*willing* than are export-*ready*; the attrition rate of first-time exporters is very high. Unlike the U.S., our European competitors spend little time trying to motivate and train the "export oblivious." Instead, they focus on firms that want to export but are not yet "ready," providing training that is narrowly-focused, highly technical, and increasingly individualized. "Export Manager-for-Hire" programs in Scandinavia, for example, make seasoned export professionals available to small firms to train company staff even as they develop their export strategy.

5: There are external barriers to small firm exporting, but they are surmountable.

The best programs aim to help smaller firms overcome specific barriers to obtaining *market intelligence* (with tailored market research consultancies replacing the trade lead collection programs common in the U.S.); conducting *market explorations* (not just through trade fairs and trade missions, but assisted individual market explorations as well); and securing *market penetration* (by providing the transactional assistance so often lacking for U.S. small firm exporters--trade finance and insurance, shipping, standards and customs, and individual deal-brokering).

6: Most national and state export assistance programs are too general; the most effective programs are deep, specific, and customized to individual firms.

Export assistance programs on both sides of the Atlantic have tended, in the past, to be aimed broadly at *all* small and medium sized firms, as if they were monolithic. They have also tended to offer the same basic menu of services (trade fairs, trade missions, seminars, etc.) to all firms, as if their needs were generic. They're not. The new generation of customer-driven export assistance programs has several common characteristics. The assistance is *narrow* (aimed at overcoming specific barriers in specific markets for specific industrial sectors); *customized* to meet the unique needs of individual firms; and *deep*, taking participating firms all the way from export strategy development to signing contracts with overseas partners.

7: Export assistance works best when it is delivered by private or quasi-private sector providers, with government playing an enabling role.

Throughout Europe and, in a few instances, here at home, private and quasi-private bodies have emerged as preferred providers of export assistance, for several reasons. First--and perhaps foremost--they understand the needs, motivations, fears, and limits of smaller firms. Second, they are in closer contact with their clients than public bodies and are quicker to sense changes in client needs. Third--rightly or wrongly--they are perceived by firms as having a credibility public agencies never seem to attain. But even when services are delivered by private entities, public sector involvement is crucial. Few private export service providers are willing, without government prodding (and subsidies), to shoulder the high costs associated with helping small or mid-sized firms identify and develop export markets. As a practical matter, even if they were, few small firms would be able to afford their services. Consequently, government steps in to fill the market gap, either by providing incentives to encourage the private sector to respond or by providing financial assistance to firms so they can afford the private services.

8: Export assistance works best when it is regionally- and sectorally-targeted.

Call it the niche-marketing of export assistance. In country after country, and increasingly here at home, export promotion officials have had to shift their attention and their resources to where their investments will have the biggest payoff. Their conclusion? The more narrowly focused the assistance, geographically and sectorally, the more tangible the results. What's more, tangible results from a small number of deals increases interest by other firms in the region or sector, generating a snowballing effect and--even more important--creating a constituency.

9: Exporting is only worthwhile if it is profitable; if it's profitable, assistance should be paid for.

Almost nobody offers export assistance for free anymore, except the United States. Most European programs have shifted to fee-for-service technical assistance, commissions or royalties, indirect subsidies, soft loans, or matching fund schemes, among other initiatives. Tight budgets are part of the motivation, but at a more basic level, the Europeans have concluded that requiring firms to pay fees or meet stiff matching requirements screens out the "dabblers" and extracts a level of commitment from the firm that free services do not. Perhaps the most intriguing aspect of this trend is that the imposition of fees has more often than not actually *increased* the demand for many services. And many customers report they value the services more--partly because the services have been improved, but also, one suspects, because they now are paying for them.

10: The real issue isn't exporting, but increasing trade flow.

Traditional export promotion programs--in the U.S. and elsewhere--have tended simply to "promote" products in overseas markets, often with little real market analysis. This "one-way street" approach is a prescription for poor performance. It assumes, incorrectly in most instances, that consumers in foreign markets will accept products in unmodified form, and relies on trade channels (distributors, agents, and trading houses) that may provide little feedback on product sales, buyer responses, or market trends. As a result, companies seldom know why a product has succeeded or failed, and have no way to obtain intelligence on changes in the marketplace (including emerging competitors) that may affect future sales. Increasingly, European state and regional agencies, often assisted by private or quasi-private organizations, have begun to change their focus from export promotion to helping companies develop reciprocal trade relationships that function as learning systems for their participants.

Thinking Strategically About Trade Development

Trade development is not magic; it cannot be conjured by exhortation. It happens slowly, one deal at a time, and while it promises profits and growth, it is also fraught with difficulty. Otherwise savvy small business owners will not lurch into globalism simply because federal officials encourage them to do so.

No one knows what U.S. export assistance programs--federal or state--are accomplishing, in part because no one knows what they *hope* to accomplish, in a strategic sense. To make sense of our current export promotion expenditures which, while far below those of our competitors are still not insignificant, the United States must take pains to learn, specifically and in detail, *why* our small firms don't export. Then, acknowledging our limited resources, we must focus direct technical and financial assistance on firms that can demonstrate export-readiness, providing company-specific training and other preparatory assistance to those that are export-willing but not yet sufficiently prepared. In addition, we must reinvent our export assistance services so they can be customized to the needs of individual firms and/or industrial sectors and deliver those services through organizations (private, quasi-private, or state) that are close to their customers and who have the customers' respect. Finally, we must demand that these firms bear a meaningful share of the cost of the services they use--using fees, in effect, as the acid test of demand and value.

Until the United States develops a trade development system that incorporates the kind of export trade services commonplace among its competitors, it cannot expect the small and medium-sized firms that form the nation's economic base to venture into international markets in meaningful numbers. In the absence of such a policy, the United States can do a brilliant job of negotiating regional and global trade agreements that assure "a level playing field," only to find it has no players prepared to take the field.

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William Nothdurft is a writer and public policy consultant based in Bethesda, Maryland. His latest book, *Going Global*, is published by the Brookings Institution.

ENDNOTES

1. Interview with Michael Farrell, Foreign Trade Division, Bureau of the Census, U.S. Department of Commerce. The Census enterprise data include only those firms with paid payrolls. They exclude agriculture, forestry, and fisheries businesses and most categories of service businesses.

2. Organization for Economic Cooperation and Development, *Main Economic Indicators for Gross Domestic Product* (May 1991), quoted in U.S. General Accounting Office, *Export Promotion: A Comparison of Programs in Five Industrialized Nations*, (GAO/GGD-92-97, June 22, 1992), p. 10.

3. GAO, op. cit.

4. International Monetary Fund, *International Financial Statistics, April 1991* (Washington, D.C., 1991).

5. U.S. Department of Commerce, *Export Promotion Activities of Major Competitor Nations* (Washington, D.C., July 1988), p.6.

6. GAO, op. cit., p. 24.

7. U.S. General Accounting Office, *Export Promotion: Federal Programs Lack Organizational and Funding Cohesiveness* (GAO/NSIAD-92-49), p.1.

8. Ibid.

9. Allan Mendelowitz (GAO Director of Financial Institutions and International Trade), *Export Promotion: Government-wide Strategy Needed for Federal Programs*, testimony before the Subcommittee on Economy Policy, Trade and Environment, Committee on Foreign Affairs, House of Representatives, March 15, 1993.

Statement of Karen S. de Bartolomé, Director
Office of International Business
The Port Authority of New York & New Jersey

Regarding Assistance to Small Business Exporters

Before
The Subcommittee on Rural Enterprises, Exports and the Environment
House Committee on Small Business
Washington, D.C.

June 8, 1993

Good morning Mr. Chairman and distinguished members of the committee. I am Karen de Bartolomé, Director of the Office of International Business. I am pleased to present testimony this morning on the Port Authority of New York and New Jersey's programs to assist small and medium-sized businesses to sell overseas.

Port Authority assistance for small and medium-sized business exporters

The most basic role the PA plays is the operation of transportation and economic development facilities that directly support regional and international commerce. Besides our bridges and tunnels, the most visible are the region's airport system, the seaports, the Teleport, and the World Trade Center. A second role that the Port Authority plays in international trade involves providing services that build international business within the region. Through our Office of International Business, we provide export trade services and international business training to small and medium-sized firms in the New York and New Jersey region.

The XPORT Trading Company, created after congressional enactment of the Export Trading Company Act in 1982, helps small and medium-sized businesses in the New York-New Jersey region to enter and succeed in markets abroad. XPORT works directly with individual companies or with industry groups that wish to expand into new overseas markets. Although private sector export management firms exist to provide export trade services to individual clients, XPORT fills a need for small businesses in the region that the private sector has generally not been willing to serve due to the high cost of developing new exporters and new markets. This program is constantly developing new and innovative methods for providing export trade services to regional firms.

In our work with individual companies, we provide hands-on assistance through all phases of international business-learning and business-building, including market analysis, identifying distributors, redesigning products to meet country specifications, attending trade shows, negotiating price and shipping terms, arranging advertising, providing access to export financing, and more.

The Port Authority's World Trade Institute has provided training to tens of thousands of small and medium-sized company managers since the early 1970's. Programs are offered at our facilities in the World Trade Center in New York and in cities throughout the United States. The Institute helps companies train their employees in a multitude of areas including: international tax, finance, logistics, purchasing, marketing, human resource management, and business strategy. Our Language Center within the Institute also helps individuals and companies compete overseas with foreign language classes and translation services. Our programs are all practical -- designed to help exporting companies succeed in the global marketplace.

Sectors served by XPORT

XPORT has studied the New York/New Jersey region to determine which industries are strongest. We look at those which represent growing industries or a growing segment of an industry as measured by sales, employment or other indicators. We also consider which industries have identifiable regional attributes for competitive advantage, such as creativity/intellectual capital; R&D/university facilities; headquarters function; or specialized skills of the regional work force.

XPORT is organized into five product groups, chosen to reflect existing manufacturing strengths and growth opportunities for companies in our region. These groups are:

consumer products
environmental control equipment
specialty chemicals
bio-medical products
lumber and wood products

Each group has a Product Manager who works with client companies that have been selected based on their commitment to exporting, their products' export potential, and global market conditions. Export markets are identified through market research conducted by XPORT staff and by student interns from local and foreign universities. Using leads generated from the World Trade Centers Association's NETWORK, the U.S. Department of

Commerce, our colleagues in state and local government, commercial databases, our London and Tokyo offices and our own contacts, we pursue actual sales.

Unlike other public sector economic development programs, XPORT requires that client companies enter into a business relationship with us in the form of a three year contract which stipulates that we receive a small commission on any sales that result from our efforts. The revenues from commissions are used to offset some of our costs. At the end of the training period companies "graduate" from XPORT and continue to run their export operations themselves. There have been some cases where the entry period into the market takes longer (i.e. specialty chemicals where it takes several years to get foreign government product approvals before we can begin marketing activities), in which case the contract is extended.

Building on the expertise gained through our one-on-one "retail" program, we implemented a new "wholesale" program designed to assist groups of firms in exporting their products. Our first wholesale activity focused on an innovative collaborative effort called Furniture New York. FNY is a group of 30 contemporary furniture and furnishings designers and manufacturers who support each other through joint international marketing and the formation of a supplier network. We have helped them with business planning, practical export information and financial assistance and assisted them in promoting their products in the EC and Japan through participation in major trade shows in these markets.

In a similar fashion, we have worked with the New York Furriers group. A recently completed sales trip to Japan resulted in $2 million in sales of New York City-produced furs to Japanese consumers. We have assisted several other industry groups in a more consultative capacity to develop international marketing strategies. These groups include the New York Building Congress, the New York Software Industry Association, the Brooklyn Cosmetics Focus Group, and the New Jersey chapter of the American Electronics Association.

In 1992, XPORT's total sales for all client companies and wholesale clients were $20 million. Over the past 10 years, we estimate that we have worked with some 150 small companies, achieved $200 million in export sales, and established a network of more than 300 agents and distributors.

XPORT measures its success through a number of criteria:

1) Sales generated on behalf of our clients.

2) Number of industry groups we assist in developing successful export programs for their members.

3) Number of firms we assist from the INCUBATOR stage of exporting through to GRADUATION as a self-sustaining exporter.

4) New methods we develop to assist companies to enter the international market.

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XPORT's work with Public and Private Sector Partners

XPORT works side-by-side with our colleagues in the public and private sector to identify specific opportunities for regional businesses in the global marketplace. XPORT has cooperated on numerous occasions with the International Divisions of the States of New York and New Jersey in organizing participation in international trade shows.

XPORT has also reached out to its colleagues in the public and private sector to coordinate export financing programs. For several years, XPORT managed a $1.7 million loan fund for the New York State Job Development Authority (JDA). XPORT received applications for working capital or financing for a particular sale, and granted approximately 250 short-term loans over the three years of the program. Paperwork was minimal, and decisions were usually made within a few days. Loans ranged from $5,000 to $750,000.

XPORT leveraged this fund through a partnership with Daiwa Bank of Japan. In exchange for a JDA deposit of $250,000, which functioned in effect as a reserve fund, Daiwa made $1 million available for short-term small-scale loans to XPORT client companies. Loans were made at prime rate for transactions as small as $10,000. This leveraged linked-deposit agreement with Daiwa was the first of its kind in the U.S. providing direct financial assistance to small exporters. Unfortunately, JDA was forced to abolish this program due to budgetary cutbacks.

In 1989, XPORT became one of 11 State or local agencies throughout the country to be designated under the U.S. Export-Import Bank Cooperative Program as a "Branch Location." This designation allows XPORT to provide assistance with, and initial processing for, ExIm working capital guarantees, loan guarantees, and direct loans. This program provides benefits to both ExIm and local companies.

<u>The role of the Federal Government</u>

Through our experience, we have seen both the vast opportunities in the export arena and the hurdles that companies must leap in order to capture those opportunities. In order to help companies over these hurdles, we believe that companies require a **long term package of export services provided on an ongoing basis.** We feel that the Federal Government, in partnership with XPORT, State, and regional export service providers, is in a strong position to provide such a package.

Currently, Federal Government agencies provide a range of export services including:

* Training e.g. "New to Export" Seminars
* Information e.g. National Trade Data Bank
* Distributor Identification, through the Agent/Distributor Search service
* Financing e.g. ExIm Bank financing

Although these services can be quite effective, companies who have used the services are often left asking the question - WHAT NEXT? The answer now is to hand companies another menu of services to choose from. In addition to the services available through the Department of Commerce, there are a multitude of export service providers at the State and local level. The problem we see with small businesses is that there is so much information, so many seminars to attend, so many forms to fill out to access financing, that companies are overwhelmed.

Companies need guidance throughout the export process and often this guidance must be provided on a very individual basis. XPORT's approach to working as a small business export incubator with export-ready clients on an individual basis for an extended period has proven to be an excellent method for developing effective exporters in the long term. Working closely with our clients, we can help them to select the export services which best meet their needs. Although we are proud of the work we have done so far, there are still many gaps to be filled which XPORT cannot address. We cannot serve all of the viable export industries with our limited staff. And, issues such as tax incentives, technical assistance, and financing must be handled at the State and/or Federal level.

As the Chairman's invitation to testify requested, we contemplated our experience with small and medium-sized new exporters and how the Federal Government might be able to assist us in serving them. The problems we have detected include fear, high entry costs, lack of competitiveness, overcoming trade barriers and insufficient access to financing. I would like to identify some ideas that the Subcommittee might consider:

1) Targeted Educational Programs - For High School, College Students and Professionals
2) Fight Unfair Foreign Export Subsidies
3) Increase Competitiveness/Technical Upgrade Assistance
4) Export Promotion for Groups
5) Dedicated Trade Specialists for Technical Training
6) Overcoming Barriers to Trade
7) Export Financing

1) Targeted Educational Programs

One of the greatest obstacles we see for small and medium-sized businesses in entering the global market is THE FEAR FACTOR. Companies are often overwhelmed by the complexities of dealing with an overseas customer. Language barriers, differing business methods, contrasting cultures, complicated payment structures, requirements for product modifications, lack of intellectual property protection are just a few of the issues with which companies must wrestle.

In most cases, the fear comes from a total lack of experience in dealing with the overseas market. Whereas their foreign competitors were born and raised to export, most American companies had a large enough domestic market to expand their businesses without any international customers. In the late 1980's, the situation began to change - domestic markets suffered from a recession and foreign competitors entered the U.S. in growing numbers with more competitive products. Now, American companies must enter the global marketplace or face the risk of extinction.

Education is one of the best tools to help Americans overcome their fears of exporting. Frankly, I believe there is a compelling argument for testing a specialized trade curriculum at the high school level as part of a business education. A more broadly available training should be available at the university level. For example, we are offering our WTI programs in cooperation with colleges such as Montclair State in New Jersey where students can study theory with Montclair State professors and the practical aspects of trade with our Evening School of World Trade instructors.

Finally, in order to have its greatest effect training should be tailored to the particular market and export goals of the client firm. For example, firms planning to participate in a trade show in India should receive training on "Doing Business in India", "Negotiating Distributor Agreements", and "Effective Trade show Follow-Up" in preparation for the show. Federal encouragement and incentives for education improvements would be welcome.

2) Fight Unfair Foreign Export Subsidies

U.S. companies find themselves competing overseas with foreign companies that receive significant export incentives from their governments. We encourage the Federal Government to continue its fight against unfair foreign subsidies in order to level the playing field for international trade.

3) Increase Competitiveness/Technical Upgrade Assistance

Firms must be prepared technologically to enter the export arena. They must be capable of producing high quality, high design products in a cost-effective environment. They must understand what their global competitors are doing, and be able to match or beat their quality and prices. Technology assistance programs are available through Federal and State programs, yet they are not provided in conjunction with export services. We have found that, in many cases, companies that are competitive domestically only learn of their need to be more technologically competitive when they try to enter the export arena. It is at this point that companies need information on available government assistance in order to gear up for the global marketplace. I am pleased that the Clinton Administration has made U.S. industrial competitiveness a major objective.

4) Export Promotion for Groups

Export promotional activities are currently offered by a wide range of public and private agencies. However, it is our experience that companies need, and do not receive, the follow-through and continuity of services that are important to being effective in the export market. Export promotion services must be offered in a more strategic way, with a long term commitment to industry groups.

Although XPORT handles some of this activity, much remains to be done. New York State has gotten involved in supporting group export activities through its Global Export Marketing Services (GEMS) Program. However, these services are only available for a period of one year. We have found that it takes at least 18 months to 2 years before companies can successfully penetrate the international market, and this process must be closely managed with the assistance of focused government programs. It is only through a well managed public/private partnership that export trade services can be provided in a comprehensive package.

As part of this package, the U.S. Foreign and Commercial Services should notify State trade promotion offices of incoming foreign buying missions and foreign visiting delegations so that they can arrange meetings with industry groups.

5) Dedicated Trade Specialists for Technical Training

We have found that companies selling similar products can be grouped together to receive such services as ongoing technical training and export promotion assistance. However, when it comes time for firms to handle more complicated situations such as negotiating distributor agreements or sales transactions, they require hands-on assistance on an individual basis. The State of New York surveyed their constituents and confirmed that one-on-one assistance is greatly needed but in very short supply. This assistance could be provided by either Federal, State, or local agencies with Trade Specialists who are trained in the technical aspects of exporting and have strong industry expertise.

6) Overcoming Barriers to Trade

Barriers to trade continue to be a serious issue for many American companies seeking to enter the international marketplace. For products such as specialty chemicals, foreign governments have imposed testing procedures which are practically impossible for our companies tulfill. It is not an issue of U.S. product quality and effectiveness but one of complex procedures designed to favor those nations' producers. The Federal Government should support our companies' efforts to break down these barriers and open up lucrative markets for our products. This will require that the U.S. Government learn more about existing barriers by communicating with companies who are hindered by these hurdles.

7) Export Financing

Access to EXPORT FINANCING is the last but certainly not the least of the issues for small American businesses. We have witnessed on too many occasions the severe problems related to small businesses' inability to finance export transactions. Financing is necessary both for pre-export working capital and for offering terms to international customers. Companies with orders in their hands have lost deals because they were unable to finance the transaction. This has proved to be a significant impediment for small businesses trying to be global competitors.

XPORT recently held a Trade Finance Seminar with a mixed group of Economic Development officials, banks, and several mid-sized exporting manufacturers. The session was held to: 1) review current activities in trade finance, 2) discuss the effectiveness and/or ineffectiveness of the trade finance programs, and 3) identify gaps and needed improvements in the programs.

The findings were quite revealing:

* In general, commercial banks are not interested in providing trade financing for deals under $10 million, with or without ExIm guarantees.

* ExIm Bank programs do not serve the needs of small business because:

  o the paperwork needed for the loan guarantees is overly burdensome for both banks and companies;
  o the terms and conditions are onerous; and
  o ExIm is unwilling to deal with more risky transactions

* There are some small non-bank alternative financing sources which are attempting to meet the needs of small exporters.

To address some of these issues, we suggest that the Federal Government:

1) Consider a program that provides direct financing to small business exporters.
2) Strengthen the ExIm program by making it less cumbersome and more accessible for small businesses.
3) Rather than focusing its attention on the banks, perhaps Federal programs should attempt to leverage alternative financing sources.

In closing, The Port Authority is deeply committed to helping our regional firms become global competitors. We are anxious to cooperate with our partners in the public and private sector in developing export services which will effectively support America's small businesses as they enter the international arena. Thank you again Chairman Sarpalius for inviting the Port Authority to speak to the Committee on this important subject. I would be glad to answer any questions from the Committee.

TESTIMONY
OF
DEBORAH HERNANDEZ
DIRECTOR, INTERNATIONAL MARKETING
TEXAS DEPARTMENT OF COMMERCE
BEFORE
HOUSE OF REPRESENTATIVES COMMITTEE ON SMALL BUSINESS
SUBCOMMITTEE ON RURAL ENTERPRISES, EXPORTS, AND THE ENVIRONMENT

JUNE 8, 1993

Members of Congress, I am pleased to appear today to discuss the State of Texas' efforts to facilitate small business exports. Texas is the nation's second leading exporting state, sending nearly $50 billion worth of our products overseas during 1992. While many of these export dollars are accounted for by Texas' large chemical, computer, and electronic firms a growing portion of the state's small businesses are showing interest in exporting. This is especially true since the publicity surrounding the North American Free Trade Agreement, the recent General Agreement on Tariffs and Trade negotiations, and market opportunities in emerging democracies has generated increased interest in the international arena. In fact, it may interest the committee to know that the Texas Department of Commerce's International Marketing area, together with our local partners, fielded over 10,000 requests for information during our last fiscal year. And the majority of our questions involve very basic information on how to export. I point this out to underscore the importance of the topic this hearing addresses today: We must become more effective in our efforts to assist our small businesses to become internationally literate and to become frequent exporters.

Each witness has been asked to address five sets of questions. I will briefly address each point and will be happy to elaborate as your questions dictate.

1. What is your state doing to help small and medium-sized businesses penetrate foreign markets?

The Texas Department of Commerce provides four categories of assistance to small and medium-sized businesses: a) technical assistance to locate international markets and to complete an export transaction b) trade leads c) marketing events and d) finance. In addition to Commerce, which focuses on the export of manufactured goods and services, the Texas Department of Agriculture provides assistance to agriculture-related companies.

My remarks will be limited to the services provided by the Texas Department of Commerce. We work in partnership with the Small Business Development Center network in Texas, with our US Department of Commerce, U.S. and Foreign Commercial Service District Offices, and with EXIMBANK to provide the services listed below.

a) Technical assistance

Basic and Advanced export counseling is provided by the Texas Marketplace Network and the Texas Department of Commerce staff of regional trade directors for Europe, Asia/Canada, and Mexico/Latin America. The Texas Marketplace Network consists of 56 Small Business Development Centers located throughout Texas. Companies in need of basic information on how to export for the first time or expanding into new markets can contact the SBDC nearest to them or the Commerce staff in Austin to receive international resource referrals, preliminary counseling, and information regarding upcoming trade events and trade leads. Companies ready to export but in need of specific assistance in the areas of customs, permitting, financing, or market analysis can contact the Texas Department of Commerce in Austin or the International Specialty Small Business Development Centers in Dallas, Houston, and San Antonio for more in depth assistance.

Technical assistance to Texas companies takes many forms. The most common form of technical assistance to businesses is telephone assistance. Companies call our office asking a wide range of questions--some just need a specific piece of information such as a telephone number, a form, or a code; some just want us to send them information on how to get started exporting; some are having problems but don't know what they need; and some have an international inquiry and need immediate and sustained help to follow up. These telephone calls account for 75% of the technical assistance we provide. Of these calls, we estimate that 50% are handled with a referral or specific piece of information immediately and require no follow-up; 35% require a written or faxed response involving less than one hour of research activity and 1 follow-up call to the customer; and 15% of the telephone inquiries require more extensive research and client followup.

Aside from telephone inquiries, we also provide technical assistance to companies who write to us for help and companies who attend a conference or seminar we participate in receive assistance while we are on-site. We participate in approximately 60 conferences and seminars through Texas each year. Topics include doing business in a specific foreign market, basics of exporting, international opportunities, and other, specific technical trade issues.

Our foreign offices also provide assistance to exporters either directly or upon referral from our office in Austin. This type of technical assistance involves assistance establishing appointments with appropriate foreign government agencies, the location of specific pieces of customs information, or foreign company information (such as addresses, purchasing contacts, and lists of manufacturers).

We constantly refer companies to the products the US Department of Commerce has made available for exporters. Among the most popular are research reports from the National Trade Data Bank, which we use daily, the Comparison Shopping Service, the World Trade Data Reports, and the Agent/Distributor Search. We also draw on USDOC expertise daily by referring companies to industry and country desk officers for tariff and other regulatory information not currently available on the National Trade Data Bank as well as for all export licensing information. The US Department of Commerce has made all of their publications available to us through our cooperative agreement with the Dallas District Office. We send a large volume of this information out on a daily basis and use it for our own reference as well.

b) Trade leads

Trade lead distribution and matching is handled through the Texas Marketplace bulletin board system. Trade lead opportunities received from the US Department of Commerce, State of Texas overseas offices, and direct inquiries are posted on this computer bulletin board. These trade leads are accessible to all interested businesses via personal computer and modem. If you do not have a computer, you may access the system free of charge at your nearest Small Business Development Center.

c) Marketing events

Trade events take many forms: catalog events, trade fairs, and matchmaker missions. Catalog events are trade fairs where TDOC staff represent Texas companies by exhibiting their literature, answering questions about the product, soliciting trade leads, and funnelling information back to the Texas company for follow-up. Trade fairs are events where Texas companies take product samples and literature into a foreign market as part of a shared booth with the State of Texas. TDOC staff provide on-site technical assistance at the trade event, assist the company to make appointments with trading partners prior to, during, or after the event, and assist with responses to trade leads generated at the trade fair. Sometimes, both full participation and catalog participation are allowed at the same event. Matchmaker events take two forms. The first involves recruiting a small number of companies to accompany TDOC to a foreign market for a specified number of pre-arranged one-on-one meetings with prospective buyers or distributors. The second involves sending Texas company literature to our foreign offices who then make appointments with prospective buyers or distributors to showcase the company literature. A written report is sent back to the Texas company with notes from all meetings and a suggested course of followup action.

Each regional trade director targets best prospects for export growth in their market areas and selects trade promotional events which will assist Texas small and medium-sized companies to maximize their exposure. We conduct these events on a cost-recovery basis.

Other marketing events organized by the Texas Department of Commerce include publications and advertising opportunities which are developed by each regional trade team. Again, these events are conducted on a cost recovery basis.

d) Finance

The Texas Department of Commerce has many financial assistance programs available to small companies. While many of these can be used to finance capital expansions and other company financial needs related to international trade, there is only one program specifically targeted to exporters: the Texas Exporters Loan Fund (TELF). TELF assists small and medium-sized businesses to acquire capital by guaranteeing loans made by commercial lenders. Eligible projects are manufactured goods and services, with at least 25% of the total value represented by Texas source components, labor or intellectual property. The export or pre-export preparation of a Texas agricultural product or livestock is also eligible. Under this program the Texas Department of Commerce may guarantee up to 90% of a loan made by an eligible lender. The guaranty amount is determined on a case-by-case basis; however, the Texas exporter must provide at least 10% of the total cost of a transaction. The maximum term of the loan is one year with a minimum of $10,000 and a maximum of $350,000 eligible funding. A $100 nonrefundable application fee is charged for all TELF applications. These loans also have a premium of 1.5% of the guaranty amount.

In addition to our Exporters Loan Fund, the Texas Department of Commerce is a participant in Eximbank's City/State Initiative. The City/State Initiative is a partnership designed to encourage financing to Texas Exporters by allowing Commerce to structure and package loan requests using Eximbank programs. Once the loan package is prepared, Commerce represents the client before Eximbank.

2. What can the Federal Government do to assist your state's export programs?

More timely and better market information, the continued development of cost-effective tools to assist exporters, better coordination of federal export promotion efforts and of federal, state, and local programs, and better export data are critical to the success of state programs.

a) More timely and better market information

The US Department of Commerce provides very useful market information through annual Country Marketing Plans and Industry Sector and Subsector Analyses completed by overseas posts. This information is now made available in a timely manner through the National Trade Data Bank. The number of industry analyses is severely constrained, however, by lack of adequate budget and staffing in most foreign posts. And the number of subsector analyses, which are the most beneficial, because they are the most detailed, are even more limited due to these constraints. It would be interesting to compare the staffing patterns of our chief trading competitors' commercial embassy staffs to see how we compare. I suspect that we have proportionally fewer staff allocated to assisting our commercial interests abroad than do our chief competitors.

The second area in which better information is needed is the area of trade leads. Much improvement has been made in the last year on the quality of the leads. Nonetheless, we have discovered that the leads which come to us have often been available to private sources for up to one month before we receive them from the federal government. This renders many leads useless. We must find a way to respond better to foreign requests for US products.

b) The continued development of cost-effective tools for exporters

The last three years have seen great improvement in the tools developed for exporters. The US and Foreign Commercial Service has done a particularly good job of improving its fee-based market research, international trade partner searches and background checks, and other fee based assistance tools for exporters. But more tools are needed.

First, some type of product or program designed to make international procurement opportunities more widely available to small businesses is a critical need. Specifically, the USAID, World Bank, and other Multilateral Development and International Development Agency programs are decidedly prejudiced against small business participation. Information about procurement processes and project cycles are not easily obtained outside the Washington, D.C. area , and each agency has a different set of procedures. The US Department of Commerce has recently established liaisons with each of the major development banks to assist US firms to become involved in the bidding cycle; however, there is only a very small staff associated with this effort, and all of their information is Washington, D.C. based. The US Trade and Development Agency is also improving its efforts to get information out regarding feasibility studies, and I am pleased to see that Congress recently rewarded this effort with increased funding. Development Bank projects represent low-risk exports for our small firms, since they are most often paid in US dollars and have a government guarantee of payment through dedicated project funds. We need to do more at federal and state levels to get our small firms involved in this process.

Second, there is great need for some type of marketing promotion financing program for manufacturers similar to the Market Promotion Program administered by USDA. Most small businesses do not have to be convinced of the importance of having a presence in foreign markets; they just need help getting there. Unless they are financially solid enough to get a bank to loan them money for their marketing efforts, they often cannot make the trip or spend the money on promotion. And we all know that you can't get business unless someone knows you're out there. This program doesn't have to be a give-away. The basis for a loan program for this purpose is present in the Export Revolving Line of Credit (ERLC) program. Unfortunately, this program is ineffectively administered and promoted at the present time, so that very few companies are aware of the program or can take advantage of it for marketing purposes. I would also suggest that a revamped ERLC program include some matching grant component or state approving authority so that states could administer these funds in a timely manner for their clients.

Third, many of the highly focused trade missions currently conducted by federal agencies, are not planned with small businesses in mind. In addition, the information about these opportunities is not distributed in a timely manner and is often mailed to a listing of major players in a given industry and is limited to the first 20 participants. I often receive information on trade missions being organized for May 20-24th on April 30th, with the deadline for registration May 1st, and the fee $6,000 plus all travel expenses. Many small businesses would like to participate in such events if they could have enough advanced notice to budget for the cost. (Many of the companies we deal with have annual international travel and marketing budgets of only $10-18,000, so prior planning is critical.) Finally, many of these missions have annual sales or production volume criteria which shut out small companies. I understand that many opportunities are only available to large companies, but an effort should be made to network small companies into international trade missions as well.

Fourth, we need to do a better job encouraging foreign buyers to visit US trade shows. Most other foreign governments provide a subsidy to qualified foreign buyers or foreign buying missions. Canada even provides a matching program that the provinces can apply for. I was at a trade show in Canada a little over a year ago and was surprised to meet several Texas companies who were there to buy Canadian products and who had their entire trip paid for by the Canadian government! We encourage foreign buyers to visit US Trade Shows through the USDOC foreign buyers program which promotes certain shows as good for foreign buyers, but we provide no funding for this initiative.

Fifth, we need to recognize that foreign investment is part of international business in both directions. US firms normally need a foreign presence at some point in their product cycle to remain competitive. We are separated by oceans from major world markets. Many of our products cannot be cost-competitively produced in the US and shipped overseas for sale. We must use US technology and components to produce overseas for sale in foreign markets, and we must recognize that this benefits the US. The alternative is losing out to foreign competition. The reverse is true as well: foreign firms normally need a US presence at some point to remain competitive in US markets. There is a need for better programs to aid investors in both directions at the federal level. By addressing export promotion only, we are missing more than half of the international business picture.

Imports usually lead to foreign investment and create jobs in trade facilitation infrastructure. By ignoring people who want to import their products into the US, we are ignoring future potential investors, and we risk slamming the door for potential US exports to many nations who view this export-only strategy as parochial and self-serving.

Sixth, we can't afford to ignore domestic trade. Many small companies need help marketing their products throughout the US. Because so many foreign firms operate subsidiaries in the US, domestic marketing to these subsidiaries is a useful way to get your product an international audience. Programs designed specifically to help bring small companies' products to the attention of foreign firms operating in the US as well as to international trading companies are needed.

c) Better coordination of federal export promotion efforts and of federal, state, and local programs

The Trade Promotion Coordinating Committee (TPCC) has proven to be a start in the right direction by providing a forum for federal agencies to compare notes regarding export promotion programs. Nonetheless, all talk and no streamlining of functions--the harder part of coordinating program delivery-- goes only so far towards making export information and assistance easier for small businesses to access. Time and again, small businesses tell us that they don't care who does what. They just want one place to go for information. The 1-800 hotline established by the TPCC is a good referral source; however, companies leave the hotline number confused and overwhelmed by the shear number of programs out there. They often receive information on how to contact 7 or more federal offices in response to their question. The time involved in tracking down these sources, explaining your problem to the person on the other end of the phone, and being transferred three times within each agency until you get precisely the right person actually acts to discourage many small companies from exporting. It seems that every federal agency, office, program, and bureau wants to get into the international arena. No matter how well-intentioned these efforts are, they are confusing to the small business person who just wants an answer to his or her question. It also makes for a lot of wasted administrative dollars. If the US Department of Commerce is supposed to be the lead agency on export programs, then make them the lead agency, and have other agencies loan personnel to them rather than coordinate a separate program with them. Or--divide programs along technical assistance, market intelligence, export promotion, and finance lines by making the US Department of Commerce responsible for all foreign market intelligence gathering and promotional programs, EXIMBANK together with SBA responsible for all financing, and the Small Business Development Center Network responsible for all outreach and technical assistance. Either of these initiatives would go a long way towards easing the confusion small businesses and state and local export assistance providers face in trying to determine who to call for what kind of help.

It would also be well-received if the federal agencies involved in export promotion consulted with local groups regarding the types of cooperative programs needed. Texas has agreements with the US Department of Commerce District Offices for joint program delivery and with the State's Small Business Development Center Network. There is also some cooperation from the Small Business Administration on export finance. Finally, it is my understanding that our Department of Agriculture has a positive relationship with the Foreign Agriculture Service, although I have no details on that relationship. The plethora of other agencies involved in export activities have never contacted my office. In fact, many of them conduct programs in Texas that I never know about until after the fact. They coordinate with one local entity--a city or trade association--and never get the benefit of statewide participation in their event or follow up assistance which we would gladly provide.

d) Better export data

States depend on the federal government for information about their exports. The federal government regulates exports and collects the customs data from which export data is derived. We currently receive "Origin of Movement" data based on Shipper's Export Declarations. This data is severely flawed, because the exporter of record notes the origin of movement as the place from which the export shipment began, not as the place from which the product was produced. This means that for states like Texas which process a large volume of exports for goods produced in other U.S. locations, our export data may not accurately reflect our manufactured exports. While most states, including Texas, try to target their export activities towards industries and markets of greatest potential, we end up simply playing a guessing game since our export data are not reliable.

3. How aggressive is your state in identifying and opening foreign markets? Do you target specific markets? How helpful is the Federal government in this area?

I would characterize Texas as an averagely aggressive state in identifying and opening foreign markets. (Aggressiveness is directly related to available funds for most states.) We do target markets and industry sectors within markets for our marketing events and for making contacts with foreign industry groups for purposes of generating trade leads. One of the major tools we use to determine what our targets should be is the National Trade Data Bank. More specifically, we rely on the USDOC Country Marketing Plans, Industry Sector Analyses, and export statistics to determine market demand and cross reference those data with our state-level information to arrive at a set of targeted industries. I have already discussed the limits of our export statistics in this process; however, it bears repeating because this lack of accurate data severely hinders our targeting efforts.

4. What kinds of businesses do you target and why? How has your resource availability shaped your state's export strategy?

a) Business targets

Texas targets small and medium-sized firms who are new to export or new to market for our export assistance. There are federal programs already available for the infrequent exporter, but there is a gap in the assistance available to companies who need to be introduced to exporting as a concept, who are not in obviously "hot" and growing industries, and who have a whole host of small business problems which must be overcome in order for them to begin exporting.

b) Resource availability

Resource availability shapes all government programs. Of course we feel we could do more with more, but the relatively small amount of money Texas has for export promotion has forced us to be more creative and to work closely with local multiplier groups. The result has been positive for Texas in many respects. Given Texas' geography it is unrealistic for State Government to provide export assistance from one location. Our partnership with local groups has enabled us to extend the reach of our assistance by providing materials and training to local counsellors. On the negative side, limited staff and funding results is less international reach through marketing programs and other networking activities.

5. What, in your opinion, are the greatest obstacles to getting small and medium-sized businesses to go global? How do you evaluate the success of your export assistance?

a) Obstacles to getting small and medium-sized firms to go global

Finance is the single largest obstacle for small business activity in general, and exporting is no exception. It is exceedingly difficulty to get bankers to guarantee export loans or provide international financing to small companies and for small deals.

The second greatest obstacle is a combination of ignorance and attitude. Most small companies are totally unfamiliar with international markets, foreign cultures and business practises, and programs and services available to help them. They still view exporting as too expensive, too hard, and to risky for them. Outreach programs to these companies need to be focused, inexpensive, and outside the major metropolitan areas. Internationalization of our high school and college curricula is a must as is better reporting about international business in our media.

The third obstacle is access to information. Despite the fact that there are many levels of export assistance available to firms--which they may or may not know about--access to information is difficult for small firms. Many small companies don't have computers and live a long way from the nearest National Trade Data Bank location. And the US, as a whole, receives very little international news and even less international business news. Large companies hire consulting firms or utilize foreign offices to receive this information. Small firms just do not receive the information at all.

b) Evaluation methods

State evaluation measures of export assistance are determined by our Legislature. Currently, we have outcome, output, input, and efficiency measures. I have listed these measures below:

Output Measures:

•Number of national and international trade leads generated through Texas Department of Commerce sponsored trade events.

•Number of companies given export assistance.

Outcome Measures:

•Number of jobs created or retained as a result of providing technical assistance and trade promotional events and/or trade leads to businesses.

•Percentage of businesses receiving state, federal or local incentives assisted by TDOC that subsequently experience growth. (Incentives are defined as export assistance, and growth is defined as export sales.)

Explanatory Measures:

•Number of companies entering a foreign market after receiving TDOC assistance. (This number is used to calculate the percentage of businesses experiencing growth for our outcome measure.)

Efficiency Measures:

•Sales generated by companies given Texas Department of Commerce export assistance per agency dollar spent.

Members of Congress, I have done my best to answer the questions you posed in a brief manner. Thank you for your kind attention. I would be happy to entertain any questions you may have.

Submitted by
Deborah Hernandez
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June 8, 1993

--THE END--

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NEW YORK STATE AND INTERNATIONAL TRADE PROMOTION:

THE CASE FOR FEDERAL REFORM AND

EXPANDING STATES' ROLE

Testimony submitted to the United States House of Representatives
Committee on Small Business
Chairman Bill Sarpalius
Subcommittee on Rural Enterprises, Exports and the Environment
1F Cannon House Office Building
Washington, DC 20515

June 3, 1993

Thank you, Mr. Chairman, for providing New York State the opportunity to testify before your Committee about our efforts to assist small business exports. As Governor Mario Cuomo's Coordinator of Global New York, I am responsible for the direction and strategy of our international trade promotion programs, and would like to share our thoughts with the distinguished members of your Committee.

EXECUTIVE SUMMARY - THE GLOBAL NEW YORK PERSPECTIVE

In our view, America needs a comprehensive **national strategy for international trade promotion.** To ensure that services are delivered to local exporters across the country, a **federal/state partnership for trade promotion** should be an integral part of this national strategy.

I. **The National Trade Strategy** -- Federal reform is essential in:

- Expanding US&FCS activities to fully cover more country markets;
- Establishing a clear priority for federal support of high technology manufactured goods exports;
- Enlarging and integrating Eximbank trade finance activities with an increased focus on short-term, pre-export, working capital financing for smaller companies;
- Improving automated information on US companies available to prospective foreign buyers and on international markets and companies for US exporters;
- Collecting better national and state and regional data on export, import and investment flows;
- Redefining the objectives of trade and investment promotion in the developing world given the new global context.

II. **The Federal/State Partnership** -- States have been at the front lines of international economic development, helping small and medium-sized firms increase exports through innovative programs. As part of the **federal/state partnership for trade promotion**, the federal government should:

- Establish a mechanism for regular consultations on strategy between the Secretary of Commerce and state economic development leaders;
- Build on the expertise of states by providing funding for state trade development programs;
- Enhance the availability and accessibility of trade finance for smaller firms by co-locating service delivery with state offices;
- Devote additional focus to strategically important industry sectors, such as advanced technologies, services and environmental exports;
- Increase the role of states in the negotiation and implementation of international trade agreements whenever subnational practices and interests are at stake.

1. **What is New York State doing to help small and medium-sized businesses penetrate foreign markets?**

Answer:

NEW YORK STATE HAS CREATED INNOVATIVE, EFFECTIVE PROGRAMS FOR HELPING FIRMS INCREASE EXPORTS

In New York State, Governor Mario M. Cuomo's Global New York initiative has helped more than 3,500 businesses break into or expand sales to international markets, leading to over $125 million in additional export sales by small New York State firms. Innovative Global New York programs reach out to smaller exporters to develop their trade potential -- maximizing available federal resources and customizing services to meet specific firm, industry and regional needs.

Global New York Initiatives include:

- Statewide Network of regional trade promotion groups and industry associations: supported by Department of Economic Development Export Trade Development Program, grants, training and technical assistance from International Trade Specialists in Albany, Rochester, Syracuse, Buffalo, Long Island and New York City, and Department of Commerce's regional offices, this Network ensures that firms receive export education and quality services tailored to their local and industry sector needs.

- GEMS (Global Export Market Service): offers 50/50 matching grants to firms and industry groups. Over 800 firms have been assisted with grants ranging from $3,250-$50,000, to assess their potential to begin or increase exporting, and to create and implement foreign marketing strategies.

- EMAS (Export Marketing Assistance Service): directly links the export-ready firm with European, Canadian and Asian sales/distribution channels, providing more intensive customized assistance than the similar Department of Commerce program. Since its 1989 inception, 249 firms have been assisted.

- High Tech Global New York: promotes the State's unique high tech resources through trade missions to Europe and Asia, conferences and regional industry tours in NYS. For example, two of the current initiatives include a Trade Mission to Asia this May to promote advanced materials and ceramics, and the July International Partnering Showcase on Optics and Imaging in Rochester.

- ATLAS (Automated Trade Leads Assistance Service): building on Commerce's TOPS with leads obtained by New York's own mailings and foreign offices, provides automated access to trade leads and export market information for subscribers. Currently, 200 firms receive export sales leads - over 18,000 trade leads were processed in fiscal year 1991-92.

- NYS Export Finance Program: a public/private partnership, offers medium-term export loans, supported by an Eximbank guarantee, for capital goods and equipment. In addition, NYS has a short-term working capital facility under development, with pre-export financing to be available in 1993-94.

- Trade Shows: represent companies with a targeted focus on key international markets and industries. In 1991-92, 556 NYS companies participated 15 different trade and catalogue shows around the world, generating 3,325 trade leads.

- Partnership between the Department of Economic Development/State University of New York: uses graduate business students traveling to Asia, Latin America and Europe to do market research and develop exporting strategies for NYS firms.

- IPP (International Partnership Program): develops and strengthens trade and cultural linkages around the world. Agreements have been signed with Italy, Israel, Jiangsu Province in China, Poland, Japan and Lithuania.

2. **What, in our opinion, are the greatest obstacles to getting small and medium-sized businesses to go global?**
How do we evaluate our success?

Answer:

RATIONALE FOR CHANGE: FEDERAL ASSISTANCE FOR TRADE PROMOTION HAS BEEN INSUFFICIENT

The overwhelming majority of US firms do not export, and are generally unfamiliar with international trade. According to the Institute for International Economics, only 15% of US firms account for 85% of all US exports, and only 3% of US businesses sell in more than five foreign countries. Though there is real potential for trade expansion, the US lacks the necessary infrastructure for trade promotion -- federal trade assistance programs focus efforts on the nation's largest exporters; commercial banks are reluctant to finance trade transactions for smaller firms; and private sector chambers, trade associations and industry groups offer networking, seminars and lobbying services rather than hands-on technical assistance for exporting. The nation is placed in an unfavorable competitive position vis-a-vis our major trading partners, all of whom act aggressively and strategically to help their small and medium-sized firms to export and invest. In Germany, for example, their well integrated export promotion policies are coordinated by government with private industry and labor, and are implemented locally and regionally by largely private sector chambers and trade associations.

Compared to major trading partners, the US is ranked last in spending on export promotion. Canada, our largest trading partner, spends 25 times as much, while German federal expenditures were twice as much as the US in relation to GNP.

Trade dependent European countries, in addition to their far greater overall support for export activity, have recognized that small and medium-sized firms drive the entrepreneurial engine of trade growth, and have designed programs accordingly. To fill the gap left by minimal federal involvement in trade promotion, states have developed their own trade and investment promotion programs. Through such strategies, states and their small and medium-sized firms have grown increasingly aware of the income and job-creating benefits of foreign direct investment (FDI) and trade.

AMERICA NEEDS A COMPREHENSIVE STRATEGY FOR TRADE PROMOTION

In recent years, exports have grown in importance to the US economy, reaching almost 10% of GNP, accounting for 70% of GNP growth in 1990-91, and attenuating the effects of national recession. However, as the pace and volume of international trade, investment, technology transfer, joint ventures and other strategic business alliances intensify, the sophistication and strength of our trading partners and competitors grow as well. Given their history of trade dependence, our major trading partners have much more developed export sectors — the EC countries' exports generally exceed 30% of GNP; Canada's are 25% of GNP and Japan's are 14% of GNP.

Since the 1980's, trade has risen twice as quickly as output. Regional and global trade liberalization has been ushered in by such arrangements as the Single European Market of EC92, the US-Canada Free Trade Agreement, the proposed North American Free Trade Agreement, common markets in Central and Latin America and the "co-prosperity sphere" in Asia fostered by Japanese investment, trade and manufacturing agreements. It has never been more critical for the US to expand and strengthen competitiveness in international markets through trade. In doing so, our nation will increase capital investment in high value-added industry, develop new commercially viable technologies and create and retain quality employment for workers.

FEDERAL REFORM: RECOMMENDATIONS FOR ACTION

In order to promote international trade on behalf of US businesses and workers, the Administration should **establish a national strategy for trade promotion** efforts with a clear mission and measurable goals. Coordination of all non-agricultural trade promotion and international business development activities under the Department of Commerce should be the starting point. The allocation of federal resources to Commerce, Agriculture, Small Business Administration, Agency for International Development, Overseas Private Investment Corp., Eximbank, and other agencies should be reexamined, and opportunities for efficiency-boosting consolidation explored with the Office of Management and Budget. Specifically:

1 • Expand the overseas commercial offices and personnel of the US and Foreign Commercial Service and ensure closer coordination between US&FCS and Foreign Service officers to cover commercial developments in more country markets. This action would ensure that agent/distributor identification and market intelligence gathering for trade leads, technology transfer and business partnerships are done in more diverse international markets than at present. Moreover, communication between overseas and domestic US&FCS offices should be better coordinated to ensure that US companies are efficiently advised of market opportunities. It has been our experience that Commerce's regional offices are often unaware and uninvolved in US&FCS efforts in NYS.

2 • Integrate and expand the export financing programs now at the Exim Bank, SBA, and the Commodities Credit Corporation, as well as the projects of the Overseas Private Investment Corporation, to make programs user-friendly, to broaden their focus from capital goods financing to more short-term, pre-export financing; to develop uniform risk guidelines,

coverage, documentation and fees, and to pro-actively use export financing as a trade promotion tool.

3 • Prioritize the promotion of exports in high tech industries, advanced technologies and services sectors. The prominence of federal support for the promotion of agricultural exports should be reevaluated. It is estimated that US expenditures for the promotion of manufactured exports amount to only $0.93 per $1,000 of goods, while federal spending on agriculture is $50 per $1,000.

4 • Create an interactive, on-line computer bulletin board featuring US company, product and industry information for use by foreign buyers in US&FCS overseas offices, trade shows and other trade promotion events. Information for the system could be provided by states, municipalities, ports and business groups, assisting US exporters to penetrate international markets.

5 • Improve the quality of information on international markets and business conditions. When contrasting export market opportunities with domestic markets, US firms often complain that the comparative absence of detailed information on foreign companies and markets (such as credit reports and country-risk analyses) constitutes a major disadvantage for US exporters. To address this information gap, Commerce and the US&FCS should work with the private sector to bring detailed international credit and country risk information to smaller firms.

6 • Collect better information on US and state-level trade and flows of goods and services to permit more accurate reporting and informed policy-making. Basic Census export data has been improved by MISER (Mass. Institute for Social Economic Research) to indicate state export volumes. Next steps should include: identifying export, import flows and investment flows by zip code or census tract in order to permit more precise regional targeting of trade assistance; collecting trade data on services exports by state, and classifying import flows by state.

7 • Redefine the missions of AID, OPIC, USIA, the World Bank and other development banks, and international education efforts to fit new global realities. In the post Cold War context, the US cannot afford to grant significant trade and investment concessions to other nations in exchange for foreign policy objectives, without heed to US economic competitiveness. As examples of ways of improving smaller firms' access to international markets, development banks should coordinate their publicity and promotion of projects and related business opportunities, and AID should ensure that in-depth studies on market conditions of developing markets, commercial organization, socio-economic conditions, cultural factors and trade prospects are readily available.

New York State evaluates the success of its trade promotion programs on the basis of actual results and outcomes. We continuously conduct program evaluations and surveys of company customers to assess our effectiveness, firm-level satisfaction and areas for improvement. Specifically, we gather data on actual export sales made, sales agents/distributors found, trade leads obtained and jobs retained or created as a result of Global New York program intervention.

3. **What can the Federal government do to assist state export programs?**

Answer:

BUILD A NEW FEDERAL/STATE PARTNERSHIP TO PROMOTE INTERNATIONAL TRADE

To improve coordination of programs and strategies between states and the federal government, the **Secretary of Commerce should establish a trade promotion partnership with state economic development leaders** including regular consultations on strategies, respective tasks and responsibilities, program development and outcomes. States can provide federal officials with recommendations on business needs related to trade promotion and program design based on direct experience "in the field." All too often, our scarce national resources for trade and investment development are spent in competing with neighboring states or localities, rather than on supporting coherent and coordinated national, regional, and local strategies for international economic development.

One of the most effective means of ensuring that the federal state partnership is operative in the field would be to **co-locate federal and state trade assistance programs in the same offices.** Such an arrangement would create one-stop shopping centers for trade promotion which would be easily accessible to small firms. Co-location of federal trade finance and export assistance offices with state-level counterparts would expand states' facilitating role as a clearinghouse for federal assistance, and would increase federal awareness of small business concerns.

1. **Trade Development Grants to States**

To best deploy government assistance for trade promotion, the federal government should make use of state-level economic developers. States, familiar with local economic conditions and business needs, have already developed innovative programs to promote trade. **States should be used by federal policy-makers as laboratories for implementing effective economic development and building international competitiveness.**

To bolster US business assistance efforts, we recommend that adequate federal funding for trade development grants be targeted to state-level programs which have demonstrated effectiveness at building international competitiveness, developing trade relationships, cultivating new technologies, attracting investment and fostering public/private partnerships. Funding resources for this new grant program should be earmarked during the consolidation and reallocation of federal programs described in the previous section.

State departments of economic development could allocate grants to public/private groups on a competitive basis, rigorously evaluating programs, and funding them based on the achievement of specific measurable outcomes. Programs supported by federal grants to qualified states should include:

- Customized technical assistance to firms for export development;
- Formation of manufacturing networks and regional industry clusters to foster cooperation, information-sharing and market intelligence gathering;
- ISO 9000 assistance for companies seeking qualified consultants for the pre-certification and certification process in order to comply with new European quality standards;
- Development of technical product expertise in international markets on the part of strategically important industry associations, based on existing models of success;
- Expansion of partnerships between state economic development agencies and universities to deploy students traveling to international markets to conduct market research and export strategies on behalf of small firms;
- Targeted marketing of international joint venture and business partnership opportunities for technology transfer, investment and global applications of new products and technologies.

2. Trade Finance

Trade finance, specifically pre-export, working capital assistance for smaller firms, is essential to support emerging exporters. In addition to the Eximbank-led coordination of trade finance programs recommended earlier, the Administration should:

- Expand the City-State Program of Eximbank to increase the focus on the pre-export working capital needs of small and medium-sized businesses and to create networks of banks and other private sector lenders to work with smaller firms;
- Open one of the authorized regional Eximbanks in New York State -- an optimum location given the vital role played by New York City-based banks and other financial institutions in financing worldwide commerce;
- Allow Eximbank programs to support firms building exportable products as part of a defense diversification strategy.

3. Industry Targeting

In addition to existing efforts, we recommend that the Department of Commerce focus on such areas as:

Advanced Technologies: Commerce and state-level economic development departments should co-sponsor major trade shows in selected high technology industries and should focus on helping high tech companies develop trade relationships with international sales agents and customers. Commerce should supplement its existing Foreign Buyer Program, enhancing trade promotion and investment attraction by focusing on such essential technologies as telecommunications, medical equipment, instruments, biotechnology, software, optics, electronics and advanced materials. Commerce should work with states to highlight new technology product developments and commercial applications through an annual international conference devoted to showcasing US innovations.

Services: New York and other states have international preeminence in the FIRE sector (financial, insurance, real estate), management consulting, engineering, retailing, licensing, franchising, telecommunications services and other business services. The services sector should be aggressively promoted to international markets — Mexico and China are examples of promising markets. As most traditional economic development work has focused on manufacturers, more expertise on assisting services firms to export is needed.

Environmental Exports: The DOC should work closely with state-level economic development agencies, industry leaders and non-governmental organizations such as the World Resources Institute to promote US "green industries" to promising international markets, notably Asia, Eastern Europe and Latin America. Changing economic and political conditions in the environmental arena, along with government regulations, create barriers to trade and significantly complicate business development efforts.

4. State Role in Trade Agreements

The role of states in the negotiation and implementation of international trade agreements should be increased. The role of the Inter-Governmental Policy Advisory Committee should be expanded to ensure that state-level concerns have standing in international trade matters whenever subnational practices and interests are being considered by federal and international authorities. In particular, the USTR should ensure that:

- States have input into the harmonization of environmental, product, safety, health labor and other standards;

- State-level standards may be retained and not considered trade barriers when such standards are higher than federal or international minimums;

- States are included in the formation of trade policy and dispute settlement on a regular, formal basis, whenever international agreements impact state-level practices;
- States receive coverage from the federal government for the costs of new mandates, such as implementing procurement provisions in GATT and NAFTA;
- States are involved in future trade liberalization negotiations affecting investment, procurement and other areas of commerce, and
- The federal government coordinate with states to resolve outstanding border infrastructure issues arising from trade agreements.

4. What kinds of businesses does New York State target and why? How has resource availability shaped our export strategy?

Answer:

New York has recognized that successful small and medium-sized firms are now, and will continue to be, essential to the generation of export-led economic growth and job development, and that government trade promotion services can help smaller firms to diversify markets, expand sales and increase investment. Our economic development services are customer-driven, addressing the needs of smaller firms on a region-specific and industry sector-specific basis.

Given world movement toward trading blocs and delayed progress on the GATT, NYS companies should prepare to counteract the risk of rising protectionism in international markets, through building long-term trade relationships and by establishing strategic business alliances. New York State must ensure that business assistance programs remain flexible to adapt to changing market conditions around the world.

The commitment of Governor Cuomo to strengthening New York's international competitiveness through launching Global New York in 1990 is particularly significant in light of the fiscal constraints facing our state in recent years. To maximize our resources, we design innovative programs to meet firm needs in promoting exports and job creation, we work closely and cooperatively with various multiplier groups, the federal government and the private sector, and we deliver services tailored to the needs of the new, emerging and expanding small firm exporter.

Targets:

Factors considered for selection of a given industry have included:

- relevance of the industry to the State;
- market demand;
- recent trade performance of products;
- future trade and investment prospects;
- investor motivation for access to markets and R&D;
- recent investment trends;
- state employment; and
- the number, size and regional distribution of business establishments.

After having reviewed the targeting studies done for DED by McKinsey & Co., Coopers & Lybrand, Battelle and others, and new information from Foreign Offices, and other research, we have decided on certain broad industry targets.

Targets:

1. Communications and Information Systems
   Including such sectors as: telecommunications equipment and services, electronic components, optics, electronic devices, etc.

   Examples of products: computers, software, information services, equipment, wired and wireless carrier services, radio/TV equipment, etc.

2. Healthcare
   Including medical equipment, biotechnology, supplies and services, medical/surgical instruments and devices, drugs and pharmaceuticals, misc. equipment, etc.

   Examples of products: MRI's, diagnostic tools and processes, drugs, therapies, etc.

3. Energy/ Environmental Equipment and Services
   Including measuring and controlling devices, machinery, advanced materials, recycling equipment, etc.

   Examples of products: pollution abatement equipment, consultant and engineering services, etc.

4. Industrial Machinery and Advanced Manufacturing
   Including metal processing, pumps, machining tools. manufacturing equipment.

   Examples of products: CAD/CAM, software, machinery, etc.

5. Food-Processing and Agricultural Services

6. Plastics and Advanced Materials

You will note that these targets encompass varied SIC codes and products, many of which may overlap several targeted industries. This selection was intentional. Our aim was to select industry clusters with the greatest potential for trade and investment relationship development over the long term. The industry clusters are diverse enough to encompass varied entrepreneurial, small and medium-sized firms, thereby accomplishing our near-term marketing objectives.

Resource Availability:

Sufficient federal resources for state, regional and local assistance to export-ready small firms have been absent in recent decades. In contrast, the governments of our major trading partners, in Canada, Europe and Japan, are spending significantly more to provide tailored trade assistance services to smaller firms -- which they recognize as essential to the generation of export-led economic growth and job creation. In Germany, for example, well integrated export promotion policies are coordinated by government with private industry and labor, and are implemented locally and regionally by largely private sector chambers and trade associations.

It has been New York State's experience that the number of firms requesting export assistance has been increasing rapidly in recent years. In order to serve the growing demand at a time of scarce funding resources, we have developed a diagnostic approach to assessing the small company's trade needs. For inexperienced firms new to exporting, we ensure that basic information on exporting and the range of Global New York programs is available through regional groups such as trade associations, chambers and educational institutions. This "multiplier" strategy provides statewide coverage. For firms wishing to expand exports and develop new markets, we offer a range of services and grants that are tailored to meet specific regional, industry and firm-specific needs.

An effective national strategy for international trade promotion and the reallocation of resources to a federal/state partnership to develop export-led growth is essential. States such as New York already have the expertise, local experience and infrastructure in place to provide small business with effective, customer-tailored export assistance. In the post-Cold War environment of heightened international economic competition, states need more resources to be able to assist more small firms to export successfully. By using the states' export assistance programs and networks, the federal government will reach small companies most effectively, thereby achieving the national strategy for trade growth and job creation.

Many small firms, defined as those with fewer than 100 employees, are currently frustrated in their attempts to export by a fundamental lack of market information and know-how -- in such areas as foreign and domestic government regulation, product pricing and the absence of accessible trade finance. We must ensure that the volume and value of exports is increased by helping the smaller exporter succeed in selling more to more international markets.

Despite the challenges of the global marketplace, our research shows that New York's small companies are exporting at an earlier and earlier stage. Over 80% of the companies established in the 1980's and 1990's began exporting within the first decade of establishment. Greater resources are needed at the state level to ensure effective response and program focus on the needs of newly established companies eager to export new products and services.

5. **How aggressive is New York State in identifying and opening foreign markets?**

Answer:

NEW YORK STATE IN THE GLOBAL MARKETPLACE

As we have indicated, our Global New York initiative has helped more than 3,500 businesses break into or expand sales to international markets, leading to more than $125 million in new export sales. We must do more to tap our vast potential in export trade. Our goal is to help at least 3,000 infrequent exporters achieve half a billion dollars in new export sales in the next three years. We are continuously taking action to expand the reach of Global New York.

New York has unique strengths to further build international trade relationships, given its "State of the World" status.

- New York City is at the center of the global marketplace — host to the United Nations; headquarters for some of the world's most powerful international corporations; home to the world's communications systems in news, finance, publishing and the arts.

- New York is an international service center, able to offer unparalleled products to world regions needing technical and developmental assistance.

- New York ranks among the top ten states in technology resources, offering an impressive climate for the growth of high value-added, high technology industry.

- As is true at the international and national level, trade growth in New York State is increasingly leading economic growth. The State's export sales from 1987 to 1989 grew 16%, while domestic sales rose only 3%. During the 1990-91 recession, domestic sales suffered, while export sales fell only 1.3%.

New York Exports

Though surpassed in export volume by California and Texas, New York State's exports have grown impressively in recent years. NYS exports amounted to $31 billion in 1991 -- up over 16% from 1989 levels, for over 7.3% of total US exports. The top six industrial export sectors in 1991 (industrial machinery and computers, electric/electronic equipment, transportation equipment, instruments, primary metals - primarily gold bullion, and miscellaneous manufacturing) account for only 68% of total exports; a clear indication of the wide variety and diversity of manufactured exports. The top six country markets for NYS exports, namely Canada ($6.7 Bn) Japan ($3.1 Bn), the United Kingdom ($2.1 Bn), Switzerland ($1.8 Bn - a significant market for gold bullion, artwork, jewelry and antiques), Germany ($1.6 Bn) and France ($1.5 Bn), have remained strong and consistent in the past three years.

NYS exports have also gained ground in other global regions in recent years — with double digit growth rates in major country markets in Asia, the Middle East, and Latin America, and some triple digit growth in Eastern Europe. NYS exporters shipped to over 30 new markets since 1987 to encompass nearly 200 countries by 1991.

NYS Export Growth to Selected World Regions - 1990-91

Region	Countries	% Increase
Asia	Hong Kong	25%
	South Korea	55%
	Taiwan	43%
	China	80%
Latin America	Mexico	11%
	Venezuela	29%
	Argentina	53%
	Chile	19%
Middle East	Israel	14%
	Saudi Arabia	65%
	Egypt	15%
	UAE	18%
Eastern Europe	New Indep. States	109%
	Poland	115%
	Hungary	39%
	Czechoslovakia	105%

New York Services Exports

The prospect for international growth in the services trade is fueled by increased efficiency in manufacturing and advances in telecommunications and transportation, which allow for the provision of services across national boundaries, sometimes without involving the movement of people or products. New York State has considerable intellectual capital, and therefore competitive advantage in the provision of services -- for example: R&D in pharmaceuticals and computers; innovative financial products, sophisticated applications of engineering and computer software. Though precise state-level data on services exports are not available, it is estimated that NYS exports over $15 billion in services annually.

Investment in New York State

Foreign direct investment (FDI) in the US has provided a significant boost to the national and State economies in the past three decades and particularly during the 1980's. In 1990, the outstanding value of FDI in the US was $572 billion. More than three out of every five of the 500 largest foreign-based companies have facilities in New York State. Gross property, plant and equipment of affiliates of foreign companies in the State, excluding banks, total over $36 billion, and such companies employ 349,200 New Yorkers, over 30% of whom are in the manufacturing sector. FDI has risen by 30% in employment terms, and doubled in dollar terms since 1986. European companies (predominantly the UK) account for 61% of this employment, Canadian 16% and Japanese 12%. Although New York State has its "fair share" of employment in existing foreign affiliates, at over 7% of the US total, the State's share of new employment is less than 5%. To ensure that our investment attraction efforts capture essential high value-added industries with the technologies which will dominate future global markets, more attention needs to be paid to assisting NYS firms in developing strategic business alliances, including investment, joint ventures, licensing, and technology transfer.

The State of New York must confront daunting challenges as it follows its mission to effectively position itself in the global economy. NYS has made great strides in creating innovative programs to address the international climate of change. The current range of program offerings addresses the needs of emerging, existing and established exporters and international investors.

Major International Market Prospects

- **European market integration** presents varied opportunities and challenges. NYS should capitalize on its unique geographic proximity and cultural ties to Europe, a market which takes $11 billion in NYS exports, in the dawning "era of the Atlantic." Market opportunities should grow, along with competitive pressures, as European Community (EC) and European Free Trade Association (EFTA) trade policies harmonize. The EC budget should provide increased development assistance to comparatively poorer member states - Spain, Portugal, and Greece - allowing these economies to be more valuable export markets for NYS. Internal conflicts in Eastern Europe and the EC, along with recessionary conditions, may slow demand for NYS goods and services.

- NYS-**Canada** trade has prospered and grown in diversity under the FTA, investment remains strong due to NYS proximity, market size and comparative advantage, and both trade and investment ties are expected to grow stronger. Canada is our largest single country market, accounting for $6.7 billion, or 22% of total exports. The NYS-Ontario Memorandum of Understanding, and the MOU being negotiated with Quebec, should provide significant economic development benefits through joint projects in the high tech, tourism, strategic alliance and labor/management areas. Cross-border and regional linkages between NYS, Ontario and Quebec should enhance economic growth for mutual benefit. Tension in Canada-US trade relations, as well as Canada's recession and constitutional difficulties, directly impact NYS trade prospects.

- In the **Asian region**, Japan, our second largest country market at $3.1 billion, has been demonstrating an increased willingness to import, presenting significant opportunities for NYS firms despite recessionary conditions in the short-term. The impressive growth of the "four tigers" (S. Korea, Taiwan, Malaysia, Singapore) and of Hong Kong should continue, albeit dampened by recessionary conditions in Japan, US and European markets. The gradually increasing economic openness of the **Indian subcontinent** also shows promise for NYS exporters and investors. The near and long-term potential for trade and joint venture opportunities in Asian markets is significant. Market liberalization and continuing foreign investment should foster rapid and impressive economic growth in China. However, import restrictions, persistent tensions between the PRC and the US, and possible turmoil after Deng's death will all moderate market opportunities.

- Political and market reforms in **Mexico** have improved trade prospects for NYS firms markedly. Mexico ranks ninth in NYS export markets, taking $887 million in goods in 1991. While approving of greater trade with Mexico, many NYS firms have serious reservations about the North American Free Trade Agreement (NAFTA). NYS can expect greater competitive pressure on many manufacturing firms, and increased numbers of dislocated workers. It is hoped that side agreements now under negotiation will fully address concerns over workforce disruptions, labor standards, environmental protection and import surges. Major NYS-based multinationals and many service providers would benefit from greater access to Mexico's market. Sectors expected to gain from increased trade liberalization include computers and electronics, machinery, pharmaceuticals and chemicals, transportation equipment, pollution control equipment, plastics, instruments, telecommunication equipment and services. NYS firms are poised to meet the challenges and seize opportunities from liberalized trade with Mexico.

- If the NAFTA with Mexico proves a success, trade liberalization is likely to be expanded to other nations in the Western Hemisphere. The general climate of political and economic reform in **Latin America** in recent years should continue to improve market prospects for NYS products and services. NYS should position itself for a central role in encouraging greater trade throughout the Americas, working with the Council for the Americas, the Americas Society, and other key organizations located in NYC.

- Given reconstruction from war in the **Middle East**, and current improvements in US-**Israel** relations, export prospects for NYS firms should continue to show improvement. Israel ranks 11th in NYS markets, taking $837 million in exports, while Saudi Arabia ranks 14th, with $719 million in exports.

- To take advantage of changes in **Eastern Europe and the New Independent States (NIS)**, NYS companies must be aware of the risks, have patience, and be committed to a long-term involvement in the region. Given the need for technical assistance, varied services exports are in high demand, especially in the business, financial, telecommunications, pollution control, environmental, and energy services sectors. Though currency resources are limited, there is demand for a wide array of consumer and capital goods. It is also the case that substantial European and Asian investment capital will be absorbed in Eastern Europe, potentially lessening foreign direct investment (FDI) available to NYS.

- Significant democratic reform in **Africa**, particularly in South Africa, should improve markets for NYS goods and services.

Again, thank you Chairman Sarpalius for inviting New York State to share in this vital discussion on export assistance for small business. I invite your Committee's comments and questions.

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